

# THE EFFECTIVENESS OF FEDERAL EMPLOYEE INCENTIVE PROGRAMS

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## HEARING

BEFORE THE  
OVERSIGHT OF GOVERNMENT MANAGEMENT,  
RESTRUCTURING AND THE DISTRICT OF COLUMBIA  
SUBCOMMITTEE  
OF THE  
COMMITTEE ON  
GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE  
ONE HUNDRED SIXTH CONGRESS  
SECOND SESSION

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May 2, 2000

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## **THE EFFECTIVENESS OF FEDERAL EMPLOYEE INCENTIVE PROGRAMS**

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**TUESDAY, MAY 2, 2000**

U.S. SENATE,  
OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING,  
AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE,  
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 10:14 a.m., in room SD-342, Dirksen Senate Office Building, Hon. George V. Voinovich, Chairman of the Subcommittee, presiding.

Present: Senators Voinovich, Akaka, and Durbin.

### **OPENING STATEMENT OF SENATOR VOINOVICH**

Senator VOINOVICH. The Subcommittee will come to order.

I first want to apologize for being late, I was presiding this morning.

This morning's hearing of the Subcommittee on Oversight of Government Management is on the effectiveness of Federal employee incentive programs. This is the fourth hearing that we have held in our effort to empower Federal employees, change the culture of the Federal workforce, and address the human capital crisis that is confronting our Federal Government.

Last July, we examined the experiences of State Government. In October, we learned how some Federal agencies are significantly changing and modernizing their operations, and in March, we examined whether the government is positioning itself to address the human capital challenges of the future. Today's hearing will explore whether the Federal Government has the right programs in place to attract, retain, and motivate a world-class workforce.

I am reminded of a story that Senator Durbin told at our last hearing. He mentioned how law firms are increasing the salaries of their lawyers by \$50,000 to \$75,000 a year to compete with rapidly growing high-tech companies which can offer sky-high salaries and generous stock options to individuals.

When I think about that story, I question whether current Federal incentives, including recruitment bonuses, flexible office hours, telecommuting, on-site daycare, vacation time, and performance pay are adequate to bring the best and brightest people into government service.

The Subcommittee will ask whether existing employee incentive programs are effective in encouraging innovation and creating an atmosphere in which employees feel there are substantial rewards for excellence and productivity.

I am especially interested in learning whether agencies have adequate budgets to offer whatever customized incentives they may have developed in order to meet their particular human capital needs. You have to have the money to offer them. In short, are the current incentives enough to persuade people to come to work for the Federal Government and, once working for the Federal Government, remain with the Federal Government?

The government faces many challenges in this area. We understand that most people who seek employment in the Federal Government are motivated by the desire to serve their country, and thank God there are still many people like that in our Nation today. However, we cannot take that spirit for granted when the employment opportunities in the private sector are more attractive than ever before because of this country's thriving economy. The pull for people to stay in the private sector is greater than ever before.

According to the Office of Personnel Management, by 2004, 32 percent of Federal employees will be eligible for regular retirement and 21 percent will be eligible for early retirement. So the prospect is that by 2004 over half the Federal workforce could say "good-bye." As the baby boomers leave government service en masse, the government will be hard pressed to hire new workers with the right skills, which will increasingly mean high technology skills. How do we get those skills? This will require a much greater investment in pay and benefits than Federal employees currently receive if the government hopes to compete with that private sector.

Furthermore, surveys of Federal employees conducted by OPM and others during the last few years indicate a majority of Federal employees do not believe that creativity and innovation are rewarded. Regardless of whether that understanding is true or a misperception, if people believe that is the way it is, then we need to respond to it.

Coupled with the example I mentioned earlier about the enormous salaries being offered to young professionals, it becomes clear that something has to be done. For one, we should look at the private sector where many companies are finding new and innovative ways to attract and retain people. I am sure that many of you have heard that several large companies have begun to offer all employees home computers. They are not doing this as a give-away; rather, they have determined that universal computer literacy of their workforce is going to be essential to their company's future success. It sends a strong signal of what they value and that they are willing to invest in their employees.

I think it is a very interesting idea, and it underscores an important point, and that is, the Federal Government needs to undertake a substantive review of how it motivates and retains its workforce in the information age. It is an important element to building the kind of quality government that our Nation should have. It is interesting that as the private sector moves along, they are going to expect their Federal Government to move along. And if they are going 85 miles an hour with technology and innovation and we are at 25 miles an hour, in effect we end up being an impediment to the growing economy and our Nation.

It is really important that we start thinking about that. We are very, very important to the future of this country's economy, and more and more government is being involved, and when it is involved, it should be involved in such a way with the technology and people that are necessary in order to grease the skids and at least not get in the way of progress in our country.

Today, the testimony we will hear will tell us about incentives that are currently available, and hopefully our witnesses will share their suggestions on how to improve the current situation. That is what I am more interested in than anything else.

I now yield to Senator Durbin, our Ranking Minority Member, for his comments.

#### **OPENING STATEMENT OF SENATOR DURBIN**

Senator DURBIN. Thank you, Mr. Chairman, and I thank the panel for joining us this morning.

Virtually every successful business that you have a chance to analyze or get to meet the leaders of will tell you that the reason for their success is the people that work there. They can have the best technology in the world, but if they don't have a creative, hard-working, inspired workforce, they are not going anywhere. I think that is the story of human experience, that we are as good as our Senate staff people who represent us and come in contact with our voters and constituents much more than we do on a personal basis. And the agencies of government that we rely on to do the most important work also are as good as the people that work there.

This is, I guess, an appropriate time for this hearing because I understand that it is Public Service Recognition Week. And although we haven't heard a lot of trumpets blaring and people announcing this on the morning talk shows, the fact is that public service for many of us who have dedicated our lives to it means a lot. And for those who are here today representing so many agencies, I thank you for your personal contribution to public service and your continued devotion to it.

It is interesting, Mr. Chairman, that we just went through a hearing in the Armed Services Appropriations Committee about the question of recruitment and retention of men and women in our military. And it appears that our friends at the Marine Corps are doing very well. They have a certain image which attracts good men and women, and they continue to meet their requirements in terms of recruitment.

But the other branches are having a tougher time. The Navy is having a tough time, the Air Force as well, and the Army, one of the worst.

The thing that has kept them going and has managed to maintain their work in place is retention. They have convinced a lot of men and women who are eligible to quit or retire to stick around, stay a little while longer. And I am wondering, as we look at this Federal workforce and the challenge that we face here and talk about recruiting new Federal employees, whether we ought to devote a few moments as well to talking about what it will take to keep some of the veteran career employees on the job a little while

longer. It can make a significant difference in terms of maintaining the key services that we count on from the Federal Government.

I said to the Chairman at a previous hearing that before he was elected to the Senate, we went through a very sad and tragic period of time during the government shutdown, and there were talk-show hosts who were blaring at full volume that no one would ever notice if the Federal Government shut down, that these were all faceless, bureaucratic paper shufflers who, frankly, really didn't do anything important to the lives of Americans across our Nation.

Those commentators were wrong, and as a result of that shutdown, I think a lot of people on Capitol Hill and maybe even some of the radio commentators learned a lesson. The agencies of Federal Government do important work, and I can list here 50 different examples my staff put together, from getting out Social Security checks to making sure our planes land safely at the airports, and everything in between. And we know that we need the very best people to make that happen.

Thank you for having this hearing, and thanks to this panel for joining us.

Senator VOINOVICH. Thank you.

Senator Akaka, welcome. Would you like to make a statement this morning.

#### **OPENING STATEMENT OF SENATOR AKAKA**

Senator AKAKA. Thank you very much, Mr. Chairman.

As the Ranking Minority Member of the Senate's International Security, Proliferation, and Federal Services Subcommittee, I commend you on your unwavering interest, Mr. Chairman, in empowering the Federal workforce. I know that our Subcommittee jurisdictions overlap, and I just want you to know that I appreciate sitting with your Subcommittee this morning.

I look forward to hearing from the witnesses today who support my belief that our Federal civil servants are the government's most valuable asset. How we recruit, train, and retain these fine men and women is a critical dialogue that deserves our full attention.

Having sat on civil service panels for most of my congressional career, I know how important salary, benefits, and other compensation incentives are to attracting and retaining qualified employees. Federal agencies, if given adequate funding, would be better positioned to utilize incentive programs that are already available. Flattened budgets and the pressure to reallocate limited resources do not benefit Federal employees or the ultimate end users, and that is the American taxpayers.

Our Nation's civil servants have given much to their country, especially when Congress was balancing the budget during times of crunching deficits. Now that the country is enjoying record-breaking surpluses, I believe Federal employees should be rewarded for their contributions, and I will continue to push for realistic budgets and salaries for Federal agencies and their employees.

Again, Mr. Chairman, I thank you for holding this hearing today and for this opportunity to say a few words. Thank you.

Senator VOINOVICH. Thank you, Senator Akaka.

I would now like to introduce today's witnesses. The Hon. Roberta Gross is the Inspector General of the National Aeronautics



and Space Administration. She will discuss how NASA motivates its workforce and the policy her office follows to do the same.

Henry Romeo is the Associate Director of Workforce Compensation and Performance at the Office of Personnel Management. He will discuss various incentives that are currently available to Federal agencies through OPM.

Colleen M. Kelley is the National President of the National Treasury Employees Union. Ms. Kelley will offer the union's perspective on how to best attract, retain, and motivate Federal employees.

And last, but not least, Michael Brostek is an Associate Director of the Federal Management and Workforce Issues at the General Accounting Office, and he will discuss GAO's work in this area. And I have also asked Mr. Brostek to comment on how GAO motivates its own employees. We are interested in that, Mr. Brostek.

We thank you for coming, and we look forward to hearing from you. And as is the custom of this Subcommittee, please stand and I will administer an oath. Do you swear that the testimony you are about to give before this Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Ms. GROSS. I do.

Mr. ROMERO. I do.

Ms. KELLEY. I do.

Mr. BROSTEK. I do.

Senator VOINOVICH. Let the record show that all four witnesses answered in the affirmative.

I would now like to hear first from Ms. Gross, and I think the witnesses understand that we would like you to limit your testimony, to the best of your ability, to 5 minutes. Your written testimony will be made part of our record. We will start then with Ms. Gross.

**TESTIMONY OF ROBERTA L. GROSS,<sup>1</sup> INSPECTOR GENERAL,  
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION**

Ms. GROSS. Thank you. Mr. Chairman and Members of the Subcommittee, I thank you for the opportunity to be here today to talk about retention and recruitment of NASA and NASA OIG employees.

NASA has a cutting-edge mission, and that requires a creative and an informed workplace. The failure to recruit, to train, and retain skilled workers has, in fact, caused some problems for NASA: Very recent shuttle flights had some anomalies. This problem caused, in part, the mission vulnerabilities of the costly Mars Climate Orbiter failure.

Because of past flattened and reduced budgets, only recently has NASA begun hiring again. This hiring authority will allow the agency really to right-size, that is, it can replace staff with essential skills that have been lost through attrition and buyouts, and it will ensure new personnel so that we can have future leaders. There are statistics that show the aging force compared to the new recruits. At NASA, there have been no recruits, almost, because of the downsizing.

<sup>1</sup> The prepared statement of Ms. Gross appears in the Appendix on page 31.

A significant aspect of NASA's new staffing plans, however, will be the use of temporary and term appointments, and in my mind, it is a real question whether this strategy will attract hard-to-reach skilled workers, and we will be following that through some of our inspections and audits.

But let me turn to the NASA Inspector General experience, and let me particularly focus on our efforts to increase and manage the information technology environment at NASA Office of Inspector General (OIG).

We needed to recruit professionals who could effectively audit, inspect, and investigate information technology security, which is obviously critical to an agency such as NASA. We have a Computer Crimes Division which is small, but it is smart and efficient. (I will take the time to say and recognize my workers.) And, in part, we have been able to successfully recruit some skilled staff for the CCD because I made a policy we are going to offer them higher grades and higher salaries, and, generally, compared to the workforce, my other workforce, they are at higher levels.

We have also created a workplace known for its leadership in the computer crimes field. It is the place to be. We sort of look at ourselves as the Chicago Bulls. If you want to combat computer crime, come to the NASA Inspector General's Office.

Senator DURBIN. I appreciate that analogy. [Laughter.]

Ms. GROSS. It is also a challenging agency environment. After all, IT security at NASA impacts astronaut security, satellite mission success, and protection of cutting-edge technology from inadvertent loss or malicious attacks.

However, recruitment in this occupational field is increasingly difficult because of the lure of the private sector: Higher salaries, more lucrative benefits, profit sharing, stock options, and greater flexibility to balance work and private life. And it has been much more difficult because of this lure.

We have had similar difficulties, and in some ways even more difficulties, in recruiting for our IT audit staff. Over the last few years, we have tried to use bonuses to recruit experienced IT auditors and evaluators, but that is not good enough. The private sector—your Big Ten firms that are going to be using this kind of workforce for consultants . . . are snapping up IT auditors with large salaries in the six figures, promises of advancement, and education benefits. It has just been very, very difficult.

There is also just a "where the government does it to itself" problem. The occupational series for auditors requires 24 academic credit hours of accounting to qualify as an auditor. If I need an information technology auditor, information technology security auditor, I really don't need those 24 hours of financial accounting. That is for the financial audits. Everybody doesn't have to know how to do financial audits. But if they are going to be called auditors, they have to qualify in this series. And so I have had very qualified people from the outside sector who want to retain their title of auditor. They are qualified, they have passed all sorts of tests, but they don't come because we have the requirement of 24 hours of accounting. That is where we do it to ourselves. And before the hearing, I did speak to Mr. Romero on that.

Moreover, it is my experience that it just takes too long to hire staff. We have lost leading candidates in both audit and computer crimes arena to the private sector competitors because companies can hire top-performing candidates faster than we can. I would say a fast recruit—bringing somebody on board—is 3 months. That is ridiculous. This is a fast-moving market. People do not have to wait around for the Federal Government. They want to know where they are going to work, and they are always unsure about budgeting. Is the Federal budget going to be there? The process is just too long.

We believe a key to one possibility for the recruitment issue is to forge some partnerships with schools and departments that emphasize criminal justice, computer science, and other related academic disciplines. And here is where we do hope for support from the administration, which does have proposals in this arena, and Congress, because it is a real budgeting issue to subsidize loan forgiveness programs for graduates with IT specialties.

Let me turn to the issue of high-cost labor markets. This is a huge problem. NASA and other Federal organizations face a very real problem with the high cost of living in those areas like Northern and Southern California. During the last 4 years, we have continuously, but unsuccessfully, recruited for an information technology criminal investigator and analyst in the San Francisco Bay area. We have had two people that accepted, and we told them make sure they looked at the housing market. And after they did that, they turned down the offer.

The high cost of housing is just too high. We could always force people to relocate, but then those valuable employees would then take a different job rather than move.

The ability to subsidize or otherwise provide housing may be one way to attract capable IT employees to such high-cost-of-living areas, and maybe some of those base-closing areas or other Federal facilities may be one way of looking at it. But certainly something has to be done.

This Committee is rightfully emphasizing human resources management. The private sector human resource community has been aggressively recruiting in the current boom economy. They have been focusing how to get the best and the brightest. But look at what has been happening for the Federal human resource community in the last couple of years. What are they focused on because of the budget? It is not because they are bad people or they are unenthusiastic about their job. They have had to focus on running reductions in force, early-out retirements, and buyout plans. Many of them have maybe lost the skills as well as the network for recruitments. They just haven't had to learn what to do to compete in this kind of market.

So this Committee's attention on human resource management is very, very key if you think of what those human resource people have been doing in the past several years and what they have to do in the current employment situation.

I am going to suggest a few ideas that this Committee can be considering, that OPM needs to consider, and that the private sector does use. We have got to be able to have those flexibilities. Aggressive pay banding so that people don't have to incrementally go

up year by year for their step increases. We should have that kind of flexibility where staff have a range of salaries so we, as managers, can advance employees on.

I also think that we need limited, noncompetitive hiring authority for highly specialized, hard-to-fill positions, such as IT auditors. If it takes me 3 months at best to get somebody in and I am able to locate people through some affirmative recruitments, I should be able to have limited, noncompetitive hiring. And let OPM or let GAO audit me to make sure that I am not just doing an old-boy system or an old-girl system and not getting the best and the brightest.

We should be expanding recruitment and retention bonuses greater than the 25 percent of annual salary because we know it doesn't work in all locations.

The other one, flexibility in annual leave entitlementment for experienced non-Federal recruits. If I have somebody from the private sector who has spent 10 years in the private sector and wants to work for NASA and wants to work in my Computer Crimes Division—remember, it is a great place to work—that person may have 4 weeks vacation in their current job. As a new Federal employee, they get to start off with 4 hours per pay period for the first 3 years. In other words, they get 2 weeks vacation. That is a huge sacrifice. For all of us, time is money. Time is very important. How are you going to be family-friendly with that kind of inflexibility?

I have other ideas, but I see my time is coming to an end. What I would say is that I was very glad to hear both Senators using their offices as a bully pulpit in recognizing civil servants. It is very important that in evaluating the work of Federal employees—and, of course, that is one thing that we do at the Inspector General's Office for fraud, waste, abuse, and mismanagement. But we all have to make sure that it is well balanced because government service is important, and that is really something that we need to say is one of the chits of why people come to serve. They come to serve because you can make a difference, and like I said, I was very happy to see you using your offices as a bully pulpit.

In conclusion, we know that budget constraints limit use of incentives. However, the government cannot afford not to attract and retain the best of Federal Government employees. I would like to personally thank this Committee for emphasizing this whole need to get the best and brightest for public service.

Thank you.

Senator VOINOVICH. Thank you.

Ms. GROSS. Senator, before you go on to the next witness, my parents are here, and they have an Ohio connection. So I couldn't help but introduce them to you. My mother was born in Ohio. My father met my mother at Wright-Patterson where they were working. My brother and I were both born in Dayton. So I am sure they wanted to say hello.

Senator VOINOVICH. Well, thank you for being here, and I say hello to you. One of the wonderful things that we have in Ohio is Wright-Patterson Air Force Base, which I think is the finest facility in the world. It is nice to know that it has brought some wonderful people to Ohio, and I am sure you are very proud that your daughter is working for NASA. Thanks for letting me know that.

Mr. Romero.

**TESTIMONY OF HENRY ROMERO,<sup>1</sup> ASSOCIATE DIRECTOR,  
WORKFORCE COMPENSATION AND PERFORMANCE, OFFICE  
OF PERSONNEL MANAGEMENT**

Mr. ROMERO. Mr. Chairman, Senator Durbin, I appreciate this opportunity to appear before you to discuss the numerous Federal employee incentives and their effectiveness. As OPM's Director Janice Lachance stated before this Subcommittee in early March, the Federal Government is engaged in the war for talent. Winning this war requires not only aggressively competing for highly skilled new employees, but also retaining and developing our current workforce. We intend to meet these challenges by ensuring agencies effectively existing incentives and flexibility tools, as well as developing additional flexibilities.

Traditionally, the most important incentive to attract new Federal employees or to motivate current employees has been pay. It is important that the basic salary we pay our employees be competitive with other employers for similar kinds and levels of work. This is a goal that has historically been difficult to achieve. Also, there has been considerable controversy over the years on how to compare the salaries of Federal and non-Federal employees in a meaningful way.

During the last 2 years, the President and Congress have agreed to increase Federal employee pay by more than 8 percent. The President's budget for fiscal year 2001 continues that trend by proposing an overall pay increase of 3.7 percent. If enacted, this 2-year increase would be the largest 2-year jump since the 1981-82 period.

A competitive salary is just one part of any employer's strategy for attracting and retaining the workforce it needs. Over the years, OPM and Congress have provided several flexibilities for agencies. For example, current law authorizes OPM to establish higher basic salaries, which we call "special salary rates," for specific occupations or geographic locations when Federal agencies are experiencing significant recruitment or retention problems. In addition, Congress has also authorized recruitment bonuses and retention allowances. The recruitment bonus authority gives Federal agencies a tool to attract a specific candidate with special skills when the position involved would be difficult to fill.

Similarly, the retention allowance authority helps Federal agencies retain employees with special skills when they otherwise would likely leave. These payments can be up to 25 percent of basic pay.

Since 1991, when these tools were created, Federal agencies have taken a cautious approach toward their use. During fiscal year 1998, however, we witnessed significant growth. In that year, 1,089 recruitment bonuses were given. Retention allowances were given to 2,300 employees in fiscal year 1998, and we expect that when we get data from fiscal year 1999 the numbers will be higher as a lot of agencies used these retention bonuses to deal with the Y2K problem.

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<sup>1</sup> The prepared statement of Mr. Romero appears in the Appendix on page 43.

We are looking at legislative and administrative options to enhance these authorities and make them more flexible. We are exploring increasing the size of recruitment and retention incentives and allowing a variety of payment methods.

But compensation is not the only component of a successful strategy. That is why we have adopted a perspective we call the strategic rewards approach. This acknowledges that an organization's reward system involves all aspects of a work situation.

Employers must recognize that many workers face the need to balance work and family responsibilities on a daily basis. On this score, the Federal Government, as an employer, clearly has been a leader for more than 2 decades. Flexible work schedules were first introduced in the Federal Government in the late 1970's. We are proud that about half of all Federal employees take advantage of this program, which has become a model for non-Federal employers as well.

We have also been a leader in introducing family-friendly leave programs. The annual vacation leave and sick leave system has been supplemented in recent years by a number of new programs, including leave sharing, unpaid family and medical leave, paid sick leave for family care and adoption purposes, and additional paid leave for organ donation purposes.

In response to a Presidential directive last year, we will implement a major enhancement to our sick leave program. Very soon Federal employees will be able to use a total of up to 12 weeks of accrued paid sick leave each year to care for a family member with a serious health condition.

The government's awards statute provides a broad framework for recognizing superior performance and significant accomplishments. OPM regulations and policies continue this decentralized approach that allows agencies to design programs that will work for them. OPM provides extensive guidance about ways to use the incentives.

Over the years, the Federal Government has included many more lower-level employees in such awards programs than the private sector. Awards programs also give agencies a means of providing additional compensation to reward short-term accomplishments as well as designing long-term incentive programs that focus employee energy on attaining specific agency outcomes and goals.

During the 1980's and early 1990's, agencies primarily gave cash awards to employees using bonuses tied to the employee's annual performance ratings. Agencies are now moving toward making greater use of awards based on specific accomplishments. This reinforces the line of sight and recognition value of the award by specifying what accomplishment is being rewarded.

Generally agency spending on awards has remained fairly constant at about 1 percent of total salaries over the last 10 years. For fiscal year 1998, agencies gave out 589,000 rating-based performance awards; about 33 in every 100 employees received one. Agencies also granted over 650,000 other awards based on specific employee contributions, a rate of 36 awards per 100 employees.

Awards programs must be flexible to permit local organizations to tailor their programs and to allow for appropriate recognition of different forms and degrees of accomplishment.

Further, to be successful, awards programs must be credible to employees and their representatives. Agencies must develop more transparent and credible criteria and increase employee involvement in the development of their programs. Awards programs have provided an arena where agency labor-management partnerships produce positive results for the entire organization.

In addition, design flexibility is important for keeping programs fresh and appealing to employees and managers alike. Adapting and refining awards programs and criteria are a natural part of an organization's ongoing use of rewards and recognition.

However, there is growing evidence about other factors that really make a difference in retaining scarce talent to meet future goals. Reward system designers have identified two. The first typically is called "learning and development," and the second is often referred to as "workplace environment." In other words, the rewards that really matter to people and make a difference in their decision to stay relate to how well the organization supports their skills building and the kind of work setting the organization provides.

With regard to the first item, for many years agencies have had the authority to establish tuition assistance and reimbursement programs. These programs pay some or all of the cost of college courses and provide Federal employees with opportunities to round out their academic backgrounds or professional knowledge.

A more recent innovation is the individual learning account which is now being piloted by 13 Federal agencies. These accounts allow agencies to set aside specific dollar amounts and/or official time for Federal employees to use for their learning and development.

Federal employees have access to more than 250 federally sponsored or assisted child-care sites around the country. We are very pleased that recent legislation permits agencies to use appropriated funds to make child care more affordable for their lower-income employees. We also need to focus on the leadership of the agencies to ensure that they are motivating their employees.

In summary, we have special challenges and opportunities in the Federal Government to keep employees engaged and working toward shared goals. The fact is that many, if not most, people do not enter public service for the money. They want a chance to contribute and make their country a better place to live and raise a family. Often the obstacles they face are enormous, and the results of the policies and programs they developed to conquer disease or clean up the environment may not be apparent for years. In such situations, it is incumbent upon us to recognize our employees' contributions.

It does not take piles of money or stock options to let public employees know that they are valued and make a difference. We do not have the money or stock options to give, in any event, but we do have a powerful reward in the recognition we can confer.

When we do these things, I am confident we can implement strategies that will foster commitment and promote excellence.

Thank you for the opportunity, Mr. Chairman. I would be pleased to answer any questions you may have.

Senator VOINOVICH. Thank you, Mr. Romero.

Ms. Kelley, we are anxious to hear your perspective on how good our incentives are and perhaps some other ideas that we ought to undertake.

**TESTIMONY OF COLLEEN M. KELLEY,<sup>1</sup> NATIONAL PRESIDENT,  
NATIONAL TREASURY EMPLOYEES UNION**

Ms. KELLEY. Thank you, Chairman Voinovich, and Ranking Minority Member Durbin.

NTEU represents more than 155,000 Federal employees across the country, and I want to thank you for holding this hearing today to examine the Federal Government's incentive programs and their effectiveness. I share your belief that Federal employees, just like their private sector counterparts, must believe that substantial rewards and incentives exist for excellence and for productivity. Without appropriate compensation and incentives, the Federal Government will find it increasingly difficult to recruit and retain quality employees in the future.

The most critical compensation elements of Federal employment—pay, retirement, and health benefits—have each faced setbacks in recent years that have limited their competitiveness within the private sector. As you know, the Federal Employees Pay Comparability Act, or FEPCA, has not been followed, leaving pay lagging far behind private sector wages for similar work. Moreover, Federal employees have been forced to pay more toward their retirement with no corresponding increases in retirement benefits, and premiums for the Federal Employees Health Benefits Program have increased almost 30 percent over the past 3 years.

According to many analysts, for most prospective employees the most critical element in deciding whether or not to accept a job offer is salary. Under the 1990 FEPCA law, Federal employees were to receive an annual pay adjustment designed to begin to close the gap between Federal and private sector salaries, measured at that time at approximately 30 percent. The law has never been implemented as intended, and a substantial pay gap remains today. Fully implementing FEPCA would do more to address recruitment and retention in the Federal Government than all of the remaining incentive programs in place today combined.

The same law that created this new Federal pay authority also authorized a number of other programs geared toward helping agencies to recruit and to retain employees. One provision permits Federal agencies to offer retention allowances of up to 25 percent. Another gave agencies the authority to offer one-time bonuses of up to 25 percent of basic pay to recruit employees and/or to relocate employees to less desirable locations.

However, only 0.14 percent, less than one-quarter of 1 percent, of all Executive Branch employees have received recruitment, retention, or relocation incentives that are known as the three R's in fiscal year 1998. Furthermore, when these incentives were awarded, they were most often paid at a rate of only 10 percent of basic pay or less, versus the 25 percent that is allowable. When asked what the most common impediments were to greater use of the

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<sup>1</sup> The prepared statement of Ms. Kelley appears in the Appendix on page 69.



three R's, agencies cited budgetary constraints and prolonged hiring freezes.

The same is true of performance awards, incentive awards, and even bilingual awards. Agencies simply do not have the resources to adequately fund these important incentives.

Until Congress provides adequate discretionary funding to Federal agencies, these problems will remain. The fact is the Federal Government faces stiff hiring competition. While the Federal Government struggles under artificial budget constraints to adequately fund its basic pay and benefits package, private industry has recognized the impact our full employment economy has had on attracting the best employees. They have forged ahead with meaningful incentives, most of which are not available in the Federal Government. They include stock options, investments in employee education, top-notch training programs, fitness centers, and a laundry list of other benefits.

In the past few years, family-friendly programs such as alternative work schedules, telecommuting options, leave banks, child-care facilities, and opportunities to use personal sick leave to care for ill family members have all provided incentives to employees to join or to remain in the Federal workforce. These family-friendly incentives have proven effective in both the public and the private sectors, but here, again, in the Federal Government funding remains an issue.

One of the benefits made available to private sector employees is on-site subsidized child-care facilities. For working families with children between the ages of three and five, child care is their second or third largest household expense. Private industry has found that making affordable child care available to its employees helps make the inevitable choice between family and work a little less stressful.

NTEU encouraged and Congress passed language in the fiscal year 2000 Treasury appropriations bill giving all Federal agencies the discretion to use their appropriated funds to subsidize child-care expenses for their lower-paid employees. Unfortunately, this language will expire on September 30, providing little time to determine whether this provision is helping to make safe, quality child care available while positively impacting morale and worker productivity. And here again, however, due to budgetary constraints, agencies have not been provided with any new funding for this important purpose. NTEU is seeking an extension of language permitting these subsidies and would certainly appreciate assistance in this effort.

I also want to bring to your attention what NTEU believes has become a major disincentive for employees who we represent at the Internal Revenue Service. As part of the IRS Restructuring and Reform Act, known as RRA, of 1998, Congress enacted Section 1203, which lists ten infractions for which IRS employees face mandatory dismissal. IRS employees work in fear of what have come to be known as the "10 Deadly Sins."

The broad scope and the vague nature of the 10 Deadly Sins have created anxiety and confusion in the workplace. These infractions, which range from IRS employees not paying their taxes on time or improperly placing a lien on a delinquent taxpayer, have

always subjected employees to discipline, up to and including dismissal, and rightly so. However, the RRA's requirement for mandatory dismissal of employees is having a chilling effect on the collection efforts and morale at the IRS. No other government employee in the Executive, Judicial, or Legislative Branch, and, in fact, no other American taxpayer, must be fired solely on the basis of paying their taxes 1 day late.

NTEU vigorously opposed Section 1203 and continues to believe that this section of the act should be repealed or changed. We would be grateful for any assistance with this matter.

In conclusion, I believe we are in agreement that the most valuable resource the Federal Government has is its employees and that there is a direct link between employee job satisfaction and whether or not the Federal Government's customers are satisfied. NTEU hopes to work with you toward solutions on these important issues.

Thank you very much, and I would welcome the opportunity to answer any questions you might have.

Senator VOINOVICH. Thank you very much.

Mr. Brostek.

**TESTIMONY OF MICHAEL BROSTEK,<sup>1</sup> ASSOCIATE DIRECTOR,  
FEDERAL MANAGEMENT AND WORKFORCE ISSUES, GEN-  
ERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING  
OFFICE**

Mr. BROSTEK. Mr. Chairman and Members of the Subcommittee, thank you for inviting us to discuss the role of incentive programs in motivating and rewarding employees to achieve high performance that supports agency missions and goals. Incentive programs can be an important part of performance management systems because they serve to align employee expectations with agency missions and goals.

In my testimony today, I concentrate on awards given to employees for their performance on the job, although I would be happy to participate in a discussion about other awards.

I will summarize my three main points.

First, Federal agencies have broad authority to design and implement a variety of incentive programs, and this is very useful because no one incentive program is optimal in all circumstances.

Second, over the last 5 years, agencies have used this flexibility to decrease their emphasis on awards that are tied directly to employees' performance appraisals and to increase their emphasis on alternative forms of monetary compensation or awards such as special act or service awards or gainsharing awards.

And, finally, while agencies have been making use of the range of incentives available to them and have been altering the types of awards they make, many agencies do not assess whether their award programs are actually effective in motivating employees.

Under their broad authority, agencies can and do offer employees a mix of awards that include monetary and nonmonetary recognition. Monetary awards include, as I mentioned, performance awards that are based on the employee's rating of record, and there

<sup>1</sup> The prepared statement of Mr. Brostek appears in the Appendix on page 80.

are at least four other types of monetary awards. Those include special act or service awards, quality step increases, time-off awards, and gainsharing awards. Nonmonetary incentives include such things as medals, certificates, and other honorary recognition.

The broad flexibility available to agencies is key because it enables agencies to devise incentive programs that their employees are most likely to find to be motivating. Incentive programs require careful construction because some employees may respond well to monetary awards, other employees may respond better to simple public recognition of their performance, and those preferences can change over time.

Over the past 5 years, agencies have generally moved to provide fewer employees performance awards, but to give those who do receive those awards larger dollar amounts. In addition, over that same period agencies have increased the use of other monetary awards and increased the dollar amounts that are given for those awards.

We do not know precisely why these trends are developing. However, based on some work that we have done in the past, the decrease in the use of performance awards, those tied to performance appraisals, may be partly attributable to the common perception that employees' performance appraisals may not accurately reflect differences in employees' real performance.

Because the motivating power of incentive programs is difficult to predict and can change over time, it is essential that agencies assess whether their incentive programs are, in fact, effectively motivating employees to improve their performance and to align that performance with the goals and strategies of the agency. Unfortunately, many agencies do not do so.

In assessing whether their incentive programs are effective, agencies may benefit from considering key elements that high-performing public and private sector organizations have used in their incentive programs. These elements include top management support, clearly defined and transparent criteria for the awards, use of multiple awards for both individuals and teams, targeting the awards only to high performers, publicizing those awards, and regularly monitoring and updating the program.

Mr. Chairman, you also asked me to comment a little bit about the awards that GAO uses, and the incentive program that GAO uses. We include, as do Federal agencies, a broad array of awards and honorary recognition for our employees. Those range from annual awards that the Comptroller General gives to a small set of employees, distinguished service awards, and meritorious service awards. We have various group awards that relate to things like EEO and the functioning of teams. We also provide throughout the year spot awards to employees as quickly as possible after an act that is noteworthy. It is very clear in the literature that the motivating power of an award is often best if it is given as contemporaneously as possible with the act that you really appreciate. So we have a spot award program through which we do that kind of thing.

The last thing I would like to mention is that under our pay system, we are a banded agency as opposed to having a GS system. The pay that one gets within a band, and the pay increases that

one gets over time, are tied to performance. We have an annual process in which we assess the performance of each employee, and we consider the contributions they have made to achieving the mission of the agency and decide upon salary increases for employees based on that assessment.

In conclusion, the Federal Government's employees—as we all agree, its greatest asset—define an agency's character and its capacity for performance. Incentive programs can be a critical element in aligning individual and team performance expectations with the goals and objectives of the agency. But incentive award programs are challenging to design and maintain. Poorly designed programs can actually de-motivate employees. Therefore, agencies should periodically assess their incentive programs to ensure that programs do, in fact, motivate their employees.

That concludes my remarks. I would be happy to answer questions.

Senator VOINOVICH. Thank you very much.

I think that the first question I would like to ask is, in a nutshell: In your opinion, are the incentives that we have, adequate? And, second, if you had your way, what additional incentives would be added? Maybe we ought to start with the latter question. What new ideas do you have for incentives for our folks in the Federal workforce? Let's start with that.

Ms. GROSS. I would say that the greatest boon to being able to manage a workforce that works at a creative agency like NASA would be greater flexibility. And every kind of specific reform that I would put would have flexibility at its root. I think we are in a very inflexible personnel system, from the speed at which it takes to bring people on to being able to package incentives to recruit them, package incentives to retain them. And I just don't need those kind of flexibilities but also the budget. If you gave me all those flexibilities that I will now start listing, it doesn't matter, if I don't have an appropriate budget.

The NASA's Inspector General's Office is something like 93 percent personnel. What we do is audit, inspect, and evaluate. And so we have a very small percentage of our budget that is remaining for discretionary spending. Discretionary means travel, like go to where you have to go for the investigation. That is not exactly discretionary.

This year, because of the circumscribed budget, I have allocated \$75,000 for my awards pool. It was larger last year, smaller now because of a decrease from the President's recommended budget. GAO asked whether or not you would know whether there is a difference if your awards pool is larger and smaller. I can tell you, my staff is very demoralized about a smaller awards pool. I have 200 people, and we are spreading out \$75,000. So I am not flexible at all.

But when good times come, what I would like to be able to have is the ability to have pay banding. Pay banding—GAO has said they now have it. Right now you have employees that are GS-11's or GS-12's or GS-13's. And to get them promoted, many of them, you have to—even though you know who is eligible to be promoted, you have decided who is going to be promoted, you have to announce and have the eligibles apply for a promotion. And every-

body that is eligible for that level of promotion applies for it. And then you go through a process.

If you had pay banding, you would have people that are GS-11's, or whatever, and there is a range of salaries, a large range of salaries, maybe \$20,000 or something like that, and you can decide who among those GS-11's is eligible to receive more money because of their work. And you don't have to go through this laborious, time-consuming process of announcing a promotion. You are rewarding people on the basis of performance. So that is a huge flexibility that I don't have.

I am recruiting people for information technology security, criminal investigators and auditors. They are a rare commodity. But because NASA is a nice place to work—NASA is a great place to work—I have to say that as a NASA employee—and I think that we (OIG) are on the cutting edge for this IT arena. But I can't non-competitively find people who are the best and brightest who would like to come to NASA and say I could bring you on in 2 or 3 weeks. I have lost prospective employees because it took so long to get through the process. And by the time we went and announced the position (like I said, a fast recruitment would be 3 months—they can range anywhere between 4 and 6 months between the time that you announce it and bring people on.) That is terrible—

Senator VOINOVICH. Ms. Gross, may I ask you something?

Ms. GROSS. Yes.

Senator VOINOVICH. Why does it take so long? Don't you have the authority within your agency to go out and hire, or do you have to go through the Office of Personnel Management and fill out paperwork and they are the ones that do the hiring?

Ms. GROSS. The Inspector General's Office has more flexibility than most of the agency enterprises. I am able to write the personnel descriptions, and that takes a long time because what you are having to do is write it very carefully so that you select out all those people that you don't want applying who look and say, hey, it would be nice to work for NASA, but they don't really have the qualifications. And you have to be very careful of your wording so that you are really getting only those you want to apply.

Then what happens is you have to put the announcement out for a period of time, 2 weeks to 30 days. Then you wait until—because of the postmark, so you wait another 10 days because mail can still come in. And then what happens is your personnelist looks at it, and I have delegated authority from OPM, so they look at it to weed out the unqualified people, which you always want to do. If I have more than five applicants, I have to have a panel of three people sit all day, and I have to get panels of people who are qualified, either my own staff who have to stop working or I get some people from the agency if they have the expertise, and they sit and do a paper screening to rank the highly qualified. Then the resulting list is then referred to the selecting official who does interviewing. Then we notify the people, and then they have to work with their personnel offices and give notice to their current employer.

So if we were able to circumvent this process, the candidates could be giving notice a long time before current practices. This current process just takes a long time. It is a long process. It is not

all with the Federal Government. It has always been every job I have had. It takes a long time. But with the Federal Government, it is particularly a long time.

And I am flexible. The Inspector General's Office has its own personnel authority. It really is a nightmare. I would request flexibilities to be able to just have some limited noncompetitive hiring authority, where you have highly difficult to recruit personnel—I am not asking that for most of my staff. You know, half my staff are auditors. Except for the IT auditors, I don't mind living with the normal slow process. I could live with it. But where I am looking for people who have skills that are highly competitive and they are wanted by the private sector, I want to move like the private sector.

You know, I can't offer them the same kind of pay. I can't offer them stock benefits. But there are people that really want to work for NASA, and they really want to work for the Inspector General's Computer Crimes Unit. I can't get those people because they have got families and they have got to have certainty in life. So it is a huge flexibility to hire noncompetitively and provide pay bands.

I think also even though Mr. Romero was talking about a number of bonuses, we are not able to necessarily package all these bonuses. Sometimes personnel are allowed just a one-time bonus. Also they don't impact on the base of an employee. If you had some flexibility of saying it is going to be 25 percent but for you it is going to be a base—it is not that you are just a GS-11. This 25 percent will be on your base pay, and it will always be with you so the next year you actually have 25 percent higher than other GS-11's, it is not just a one-time only, then that is an incentive.

If you go to the private sector, they do have incentives that they give people, like recruitment bonuses, but they have high bases. For select employees, if I had the budget, I would like to be able to do a salary base change, and that would give me the flexibility.

Remember I said my key theme is flexibility. It is fine to have all of these different if personnel tools I could package them in my way. I would be willing to give the paper trail and let somebody audit me on that—even the inspector general could be audited, right?—so that I would justify that really what I am not doing is abusing the system but really hiring for merit.

Senator VOINOVICH. So what you are saying is that the incentives that you have right now, if you had the flexibility and the budget, they would be adequate? You wouldn't be asking for housing allowances or something of that sort?

Ms. GROSS. Yes.

Senator VOINOVICH. Which are not included in a package to date.

Ms. GROSS. No, I don't think they are adequate. I think what you don't have is the ability to bundle these up. A lot of these are one-time bonuses. And so that is not flexible. I might want for a certain employee to offer 25 percent every year for the next 5 years, because for me this employee would be worth it. I don't have these housing allocations. I don't have a banding so that I could promote people.

Let me give you another example. We have had people who have graduated——

Senator VOINOVICH. So you don't have pay banding now?

Ms. GROSS. No.

Senator VOINOVICH. OK. So that would help.

Ms. GROSS. It would help a lot. Another thing, again, the inflexibility of the Federal Government system, students that graduate with a master's in computer science, a number of them have written to us and would like to get hired for my Computer Crimes Unit or even for my IT audit group.

Personnel with an advanced degree in computer science come in without any work experience, they have to be hired at a GS-9. Well, excuse me, but people with a master's in computer science is going to go to Microsoft or they are going to go to KPMG. They can't afford to come to me even though I might be their first choice. Talk about inflexibility.

And you are not—it is just a system that does not give—

Senator VOINOVICH. Let me ask you this: Is it regulated—because I am new here—by law that you can't have bands, or is it done by—

Ms. GROSS. Right now that is by law.

Senator VOINOVICH. It is by law.

Mr. ROMERO. Senator, there is no statutory authority to have agencies have broad banding systems other than in demonstration projects, and we have several that are in effect right now throughout the Federal Government, and most demonstration projects, when agencies have undertaken them, have really focused on pay-for-performance systems, and they have been very positive in their results.

I think that we have found that when you have pay for performance, which is the net result of having a demonstration project that has a broad banding system, you do wind up with a situation where the employees that are better performers wind up getting rewarded at a higher rate or getting rewarded more than marginal performers. And that is both good for them and also a strong message to the ones that might be marginal performers.

So there is a strong notion that pay-for-performance systems such as you would have with broad banding systems are effective in terms of rewarding and recognizing your good performers.

Senator VOINOVICH. But the thing is, from what I heard, the pay for performance is not being used as often—

Mr. ROMERO. It is not available to all Federal agencies.

Senator VOINOVICH [continuing]. Because, from what I have read from testimony of others, many employees are not confident of the performance evaluations that are being done. Therefore, because there is an issue of whether or not they are adequate or not, then you shy away from that and you go to some other ways of rewarding employees.

Ms. KELLEY. Right now, unless you have the authority, as Mr. Romero said, under a demonstration project, the agencies can't even do that.

Ms. GROSS. Right.

Ms. KELLEY. But when they do—and from NTEU's perspective, moving away from the grade and step system might be a good thing to do, if the employees believe that the performance appraisal system is a fair and a credible one. And so where NTEU is on this is that the employer representative must be involved in the design

of a system that would be seen as credible to employees. But it all does come back to the issue of budget because, in a pay-banding system, if one employee is going to move up the ladder faster someone else must lose out. There is only so much money in the agency's budget. That money has to come from somewhere.

So the involvement of the employer representative in the design process is something that we have supported and have worked in the past with OPM on and with agencies where we have had that opportunity.

Senator VOINOVICH. Well, I would welcome some recommendations on how the system could be improved. Mr. Romero, you should gather together folks that really have the knowledge to make recommendations and understand that there is a variety of needs that are out there. New programs should be fairly flexible. And once you have done that, you estimate the amount of money that is needed. I mean, \$75,000?

Ms. GROSS. Is a joke.

Senator VOINOVICH. You have got to be kidding me.

Ms. GROSS. I am not. I wish I was.

Senator VOINOVICH. These unmet needs that are very important to retaining and attracting people are getting the back of the hand, and we are going off on a lot of what I sometimes refer to as boutique programs, which have high visibility and popularity, and we neglect basic necessities. It is like the shoemaker whose kids are going around with holes in their shoes.

Mr. ROMERO. I agree, Senator, and that is why we are working right now with the various stakeholders in designing legislative proposals that would give agencies authority to begin the design of broad banding systems. And we recognize that the key would be to have the authority out there so that agencies can determine for themselves what will be a valid performance management system that will have credibility and that will be accepted by the employees as being fair and equitable. So we are looking at that in terms of giving broad banding authority to all Federal agencies.

Also, Ms. Gross mentioned the flexibility in the existing three R's, and as I indicated in my written statement, there was a cautious approach when the statute was first enacted, and we have taken steps to provide more flexibility and more information about those authorities, because in a recent study, it was determined that even the current authorities, which may or may not be flexible enough for all agencies, there was not as extensive use made of them as there could be. And a lot of the reasons were that, for one thing, there wasn't information about them outside of the headquarters organization. There may not have been even the knowledge at the operating level that a manager or supervisor could exercise that kind of authority and have that flexibility.

Also, in many cases, agencies kept the authority level at a very high level, so it became an administrative burden to even request authority to give a recruitment or retention bonus, and that is something that we are trying to get the agency to push down to operating levels.

Finally, there is also the problem that it is always a budget problem where both Senator Durbin and Senator Akaka talked about the budget crunch in the 1980's, and it is no surprise that awards



and recognition programs were the ones that were sacrificed first whenever there is a budget crunch. And even now with the case of retention and recruitment allowances, there is not a sufficient amount of money budgeted to provide them even where you have a situation where it is most appropriate. Where you have that highly skilled candidate that is the perfect situation that these allowances and bonuses are designed for, there may not be enough money to pay that bonus, whether it is 10 or 25 percent, because of the budget situation in many agencies.

But we are working on a proposal to provide even more flexibility to be able to give larger amounts, provide more variety of the situations in which these allowances might be payable, and to provide more payment options so that there could be biweekly or lump-sum or scattered payments. All of these will be features of what we are looking at in terms of more flexibility in these allowances and bonus programs.

Senator VOINOVICH. Thank you. I would just make one more comment, and, Senator Durbin, I am sure you have some questions that you would like to ask.

The question is: How do you get people's attention to this crisis that we have? You mentioned, Ms. Gross, that you are having some real problems where your personnel issues were impacting on your agency's mission.

Ms. GROSS. Yes.

Senator VOINOVICH. I met recently with some folks from the Air Force, and their lack of people in the area of maintenance and maintaining military aircraft.

Ms. GROSS. Scary.

Senator VOINOVICH. I met a pilot who is leaving the Air Force who said, "I am leaving because I don't have confidence anymore." This is starting to impact our national security and our government. We ought to try to make the public and Members of Congress more aware of the importance of this issue.

Sometimes people say, well, you are losing half your employees. That is good because you have too many people working for the Federal Government anyhow.

Ms. GROSS. Right.

Senator VOINOVICH. Too many of them don't understand how important what you do is to our country and to their future, quality of life and well-being.

Senator Durbin.

Senator DURBIN. Mr. Chairman, as I listened to this panel suggest that Congress has been remiss meeting its responsibility in appropriating appropriate funds for incentives and daycare centers and some of the things that we did as the Taxpayer's Bill of Rights when it came to the changes at the IRS, I am reminded of the Walt Kelly "Pogo" cartoon where he announced, "We have met the enemy and they are us." When we called in these agencies to find out what they were doing wrong, they told us that we are doing it wrong here on Capitol Hill. And I think there is a lot of truth to that.

I have listened carefully to what they have said. It appears that in most instances there are many incentives that could be funded and used to attract and retain Federal employees. But it depends

on Congress doing its part. We have to appropriate the money. And if we don't put the money in place, all the authority in the world isn't very valuable, and also be a little sensitive, as Ms. Kelley says, to the climate that you create in a punitive environment.

I note, incidentally, that recently OPM had a survey of some 32,000 Federal employees, and 40 percent of them responded out of 48 agencies. Sixty percent of the Federal employees in the survey indicated they were satisfied with their jobs. That is slightly below a comparable private sector rate of 62 percent. That is pretty encouraging, really, when you consider it, all things considered.

When you took the highest levels of job satisfaction, two of the agencies that have a high level are represented here today: NASA and OPM. When it came to low job satisfaction among Federal agencies, it was interesting that INS and Customs Service came out, and I wouldn't be surprised if the IRS wasn't too far away in terms of the job satisfaction of the employees. It may reflect to some extent contact with the public. If you have to work with the public every day under a stressful situation, it takes it out of you after a while. We find that in our business because we are constantly in touch with our constituents, and you have to be ready for your game every day or it shows.

But I guess the point that I am driving at is I want to get down to some specifics here of some areas that have been discussed, and I want to ask for some response. We had a previous hearing, and at the previous hearing, there was talk about one incentive that is available, and that is the forgiveness of college loans, educational debts. And I thought to myself that is a pretty good one, because so many young people come out of college burdened with heavy debt, and if you could offer an incentive to them to reduce their college indebtedness if they come work for the Federal Government, that is as good as a pay raise. In fact, it may be, as soon as you get out of college, a great incentive to consider public service.

And so I wrote to the Director of OPM, Ms. Lachance, and asked her to give us some background on these programs. And, again, it comes down to appropriations. If we don't appropriate enough money for you to offer this incentive, it is on the books but it doesn't mean anything. It is an incentive that might work, but won't unless you can pay for it.

But a couple things came through that were interesting, Mr. Chairman. The student loan repayments basically say up to \$6,000 a year, not to exceed \$40,000 per employee. They apply to 22 job classifications containing almost 300 job series. I am not sure exactly what that means, but it appears it is fairly limited in terms of those who could qualify for it.

In order to qualify for it, you agree to work for the Federal Government for at least 3 years, absent some extraordinary circumstances. And if you continue beyond 3 years, you can obviously make beyond the first 3 years' reimbursement.

Here is the part that I found interesting, though. We passed this law in 1990. The OPM is still working on the rules. It is 10 years later. And they haven't put the rules in place to implement the legislation that we passed 10 years ago.

That is not encouraging. We have a responsibility to appropriate the money, but, Mr. Romero, could you comment on the fact that

it would take so long to develop the rules for this incentive, which I think could be very appealing on college campuses.

Mr. ROMERO. We agree, Senator, that in this climate it is the most appropriate incentive, and that is why we are proposing regulations to implement the provisions of 5 U.S. Code 5379.

During the 1990's, as you talked about the budget crunch, there really wasn't any call on the part of the agencies for this kind of added authority, primarily because they wouldn't have had the money to pay—first of all, there wasn't any recruiting being done. In fact, as several of the other witnesses have indicated, most people were involved in downsizing and being concerned about maintaining current staffing levels. So there was not a climate, there was not a mentality of we need all these tools to recruit new people, new college hires. Some agencies have not done college hiring in 4 or 5 years. So there was not a demand, even though the law was on the books.

It is a different situation right now, and now it is why have we waited so long. But we are proposing regulations to make this available to all agencies, the authority to repay student loans. All the Perkins, Stafford, and PLUS loans that most college students take out would be covered.

You mentioned the coverage. We are talking about 22 occupational categories, 300 job series. That is a lot of jobs. A single series might have as many as 10,000, 20,000 Federal employees in that series. The statute was clear that it was supposed to be for those kind of occupations that college graduates usually pursue in terms of Federal employment, and that is why it wouldn't be applied to just some of the occupations that we didn't think that you would need to give this kind of benefit to.

So there is in the statute some coverage limitations, but it still covers an awful lot of Federal employees. Primarily all the technical, scientific, and more professional kind of jobs that we have in the Federal Government would be ones that would be able to apply the student loan repayment benefit.

Senator DURBIN. Your explanation makes sense, but at this moment in time, can you give me an idea when the rules and regulations might be coming out of OPM on this law?

Mr. ROMERO. Today I don't know where they are right now in the clearance process, but I can get that information to the Committee by the end of the day or tomorrow.

Senator DURBIN. If you would, please.

Let me go to Ms. Kelley, because I think you raised a point regarding my daughter and son-in-law—my daughter works for the Department of Agriculture. When our new grandson came along, they were very excited at the possibility of getting our grandson into the U.S. Department of Agriculture daycare. It takes a year or two in advance for you to apply—I don't know how that works—but in order to be admitted, and for some reason it didn't work out. But it was disappointing to my daughter because the thought of having her new son close by so she could visit on break or at lunch-time meant a lot to her.

So when you mentioned daycare, it really struck me. That is something as a grandfather that I thought about, that I like a lot. And it appears from what you say we just haven't done enough in

that. We haven't really made that a priority. And after college loans, if you are talking about new parents, I can't think of another thing that you could offer to an employee at that stage in their life that might be more appealing: Affordable, quality daycare, accessible to your place of work.

I am going to focus on that a little more now. You have really piqued my interest in it. And I also think you have done a good job in your testimony talking about the Taxpayer's Bill of Rights.

Ms. KELLEY. Thank you.

Senator DURBIN. And maybe we ought to revisit it. I know it was extremely popular. I voted for it. I think everybody in sight voted for it. Go after that mean old IRS and protect the taxpayers.

I am going to take a look and see how we are doing on enforcement actions now that we have created this different environment, and take a look as well as to whether or not we are creating an onerous and really unjustifiable burden when it comes to the employees who have this special responsibility. But thank you for your testimony on that.

Ms. KELLEY. Thank you, Senator. I appreciate that and will look forward to your help.

Senator DURBIN. We will.

Ms. GROSS, one of the things that you brought up that I thought was interesting is, if you want to hire an experienced employee and bring him on the job, many times you don't have the flexibility to say, incidentally, we will match the leave time you have already accumulated in the private sector.

Ms. GROSS. Right.

Senator DURBIN. You don't have to go up the ladder to the point where 10 years from now you will have the same number of vacation days you already have at your private firm.

Now, is that statutory? Is that regulatory? What would it take to give you the authority to make that decision? That doesn't seem like it has a direct budget impact, direct appropriations impact.

Ms. GROSS. It is statutory.

Senator DURBIN. Statutory. Here we are again.

Ms. GROSS. It is such an amazing inflexibility. I have hired, for example, an investigator who had worked at Amtrak, which is a Federal corporation. It is a mixed-government Federal corporation. And he had something like 5 weeks' vacation, but he is a new Federal employee because the Federal corporation, you are not a Federal employee. He didn't qualify for that. And so now at this stage of his life, he is starting back with 2 weeks.

It is the same kind of issue that really is a door closer for some people in the private sector that are interested in working in the criminal investigative—

Senator DURBIN. It is very understandable. And, Mr. Chairman, I can't speak for you, but I would like to take a look at that, and maybe we can work on this together.

Ms. GROSS. Thank you.

Mr. ROMERO. Senator, we are working, we are already working with many of our stakeholders on a proposal that would give new Federal employees—and we started talking first about senior executives, but the discussion has centered around any Federal employee that is in a hard-to-fill occupation. We ought to be able to

have the flexibility to give them the accrual rate benefit of someone who has been around 15 years that from the start you actually can be accruing at a high—or get credit for some of what you might have earned had you been working for the government for a while. So that is something—the idea of providing people a greater annual leave benefit is something we are looking at.

Senator DURBIN. The last thing I would like to ask you—and any one of you can comment on it—is on this retention question. When you have reached a person who has the time in and they are eligible for retirement, do you find that there are one or two things that they are particularly sensitive to? If you went to them and said we can change things a little bit in terms of your workload or in terms of time off, would you stick around for another year? We are going to need you in this job while we transition into a new project or bring someone else on board.

Is there anything that stands out on this retention question that seems particularly appealing to career employees?

Mr. ROMERO. We have always surveyed employees as they leave, exit interviews of a lot of employees, especially those that may be leaving because it appears that they are unhappy. But it is very constant through the years that people want to stay and will stay around if they value their work, if they enjoy what they are doing, and if they feel they are valued. And this is why this hearing is so appropriate in terms of how do you recognize and reward people so that they feel like they are doing something meaningful and want to stick around.

Something very interesting that has been emerging in a lot of recent surveys is that they also—something that is very critical is who they work for. And a lot of people leave not because of the money or the leave accrual rate. They just don't like the person they are working for. They don't feel that that is a nurturing environment, and so I think we need to do a lot of work in terms of our supervisory and management development and training. People leave because they just don't like their bosses.

Mr. BROSTEK. Mr. Durbin, we did some work on this very issue: How could you get employees who are nearing retirement age to stay on longer? It has been a while since we did that. It was in the early 1990's, and I don't remember all the specific reasons why employees said they might stay, and what kind of things would induce them to stay. We will be sure you get a copy of that report.

One of the things that they did mention was compensation and whether they might get an increase in their retirement benefit for staying longer with the government. I think some of the reasons that were mentioned here today are probably appropriate as well.

I would like to go back, if I could for a moment, though, to your point about, once again, it is Congress' responsibility here or fault, if we were giving fault. I would give you a small out on that, if I could, Senator. We continually bring to the table the message that what agencies need to do in this whole area of their greatest asset, their human capital, is do some self-assessment on how well their current systems are working and bring to the table some fact-based analysis about where there are impediments to improving their performance.

And what I would ask you, Senator, is how often you have seen that kind of fact-based analysis, how often you have seen in the budget submission from an agency a case that they needed greater money to offer retention allowances or bonuses or to pay their employees differently. I think that it would be useful to take a look at that, because our impression based on the plans that are required under the Results Act, the Government Performance and Results Act, is that agencies frequently have not included any kind of analysis about what they really need in order to use their people more effectively.

Senator DURBIN. Good point. Thank you.

Thanks, Mr. Chairman.

Senator VOINOVICH. I have always said to my directors, if you can't measure it, don't do it. And so if you don't measure how this is working out, then it is very difficult to pinpoint what works and what doesn't work.

You have X number of dollars in a budget, so, first, we need to determine what percentage of a budget is adequate to do some of these things that the Federal Government allows you to do. And second, is something that we ought to look at in terms of appropriations: When a budget is submitted by a department, do you specifically earmark X percent that would be used for taking advantage of these incentives? Do agencies get a salary or personnel level?

Mr. ROMERO. Usually just a salary—an expenses line item. It is an additional earmark for—

Senator VOINOVICH. So that is what you get. You get a personnel line item, and then you are supposed to deal with all the things related to personnel through that. That might be something, Mr. Romero, that the administration at this stage of the game might look at. We have these incentives, and maybe there should be a specific budget allocation for them.

Mr. ROMERO. I know that in the past, though, where there has been on the part of Congress in a statute a sort of mandatory minimum or maximum, there have been problems where people see that as a dictate that they have to meet certain goals, or whenever there is a budget crunch, there is a statutory requirement that X amount go to awards, and in order to meet that requirement, they sacrifice other things. So there is always a caution in terms of having any minimum or maximum that are generally applicable to the whole workforce.

Senator VOINOVICH. Well, let me just say this to you. I don't know the answer to that. That is your baby. But you ought to look at what other governments do, maybe in other States, or what the private sector does and how they work that into their budget so that they have the flexibility to get the job done. Obviously, there isn't enough money now to do it. I request that you look into this and take it to the Office of Management and Budget and talk about that issue.

I am not kidding you. We are talking about creating new programs this year, and we are not taking care of the things that need to be taken care of. The house is not in very good shape right now, and we want to go out and build new houses when the one that

we have is in bad shape. So I think that we ought to do first things first.

The other thing is, which of these incentives would really make a difference in terms of retention? We want to attract, but how do we retain people? If you look at the numbers and know 31 percent are going to retire, and you have another 21 or 22 percent that could retire early, what can we do now to make sure that that 21 percent doesn't retire early? What is it that will create the kind of environment that convinces them to stick around? Is it the training budget? We have a survey out right now asking questions like what percentage of the agency budget is being used to upgrade the skills of individuals and what kind of opportunities do you afford them? What would cause employees to say, I want to stick around here?

Ms. Kelley and I have talked about quality and empowerment of employees and getting them involved in the operation of their departments. What influence does that have on somebody wanting to stay in an agency?

A friend of mine had a son that worked at one of our Federal agencies at Los Alamos. He is a Ph.D. and the rest of it. He left this Federal agency because he said it was Dullsville. It lacked excitement, and he decided not to stay.

So I think that even though, Mr. Romero, this is the end of an administration, I think it is incumbent on the current administration to make some serious recommendations on how to respond to this human capital crisis that we have. I would like to work out a timetable with you and see if we can't gather the people together that are necessary so you can come back with some recommendations in the next maybe 6 to 8 weeks regarding what we can do in the short term and then look at some of the long-term solutions that we need to incorporate that will be looked at by the new administration when they come in.

The new administration needs to know that they have a real problem here and they had better get on this one and give it a high priority, because if they don't, they are in deep trouble. So I would like to figure out something that we can do to address this immediately.

Mr. ROMERO. We will be glad to work with you on that.

Senator VOINOVICH. And then look at the long term and get the folks that are necessary to deal with this in a very constructive way.

Mr. ROMERO. Yes, sir.

Senator VOINOVICH. Would any of you like to add anything to your testimony here today?

Ms. GROSS. I would just like to add that one of the issues is if you have stable funding and you know what your funding is going to be as agencies and they know that they are not going to be in a downsizing environment, then you can have these reforms, both the current ones as well as future ones that are needed. I think it is very difficult, and I think as Mr. Romero said, OPM just stopped looking at what to do to implement the law on—

Mr. ROMERO. Loan repayment, student loans.

Ms. GROSS [continuing]. The student loans, because everybody was in a spiraling downsizing mode.

Now, that doesn't mean they shouldn't have still been proposing the regulations, but, nevertheless, I know it is true about NASA. NASA offers many opportunities to its employees for training, for going to school, but what happens is, we have to get the work done. We have a space station that NASA has to finish. In my case, we have computer crimes and hackers are there all the time. I mean, they are not just waiting for us to go to school.

And because of that, you don't have the staffing levels that you may need, so it really makes it difficult to take advantage of some of the training. But my staff tells me that is something they absolutely do want. Technology changes so fast. They feel that also they want to have those credentials for when they have to testify in court that they have a master's in some of these programs, they want to be credentialed. And so we are balancing that need. I think a stability in terms of funding and workforce will go a long ways so that, in fact, you can do these other things that are absolutely crucial so that you can have the Federal Government that the public deserves.

Senator VOINOVICH. When I first became Governor of Ohio we had very little in the area of training, but when we finished, we were able to offer each employee of the State Government up to \$2,500 a year for upgrading their skills or pursuing higher education. And it was a combination of the State and the unions working together. In fact, the unions gave up some of their pay increases and said, look, we will give this up, if we put a nickel in, you put a dime in, so that we could build this fund, because they understood how important it was for their workers to be upgrading their skills.

Ms. Kelley, you were talking about the child-care issue. Refresh my memory. We need to get that reauthorized so it doesn't sunset.

Ms. KELLEY. Yes, the current legislation expires on September 30, and we need to have that language extended into the 2001 budget so we can really get this thing going.

Senator VOINOVICH. And repeat it again.

Ms. KELLEY. The ability to use appropriated funds by the agencies to subsidize child care, and this is the first time that has ever been authorized. Now, no additional funds were allotted to the agencies to do it, but the fact is they now have the authority to use appropriated funds, and we are working with many of them to try to put pilot programs in place. But it is due to expire September 30.

Senator VOINOVICH. OK. This would be——

Mr. ROMERO. The legislation has a 1-year limit.

Senator VOINOVICH. Is it subsidizing the cost of child care, or is it money out of your budget for building child care?

Mr. ROMERO. No.

Senator VOINOVICH. It is just strictly——

Ms. KELLEY. The cost of child care. It is a reimbursement.

Senator VOINOVICH. It is additional money that you would provide someone as part of their compensation for child care?

Ms. KELLEY. Yes.

Senator VOINOVICH. Was it experimental?



Ms. KELLEY. Well, it was just set up with a 1-year life on it in this appropriations bill, and that is why it will expire September 30.

Mr. ROMERO. The President has included in his budget request, Senator, that the law be extended for another year.

Senator VOINOVICH. Well, it probably ought to be extended for 5 years. In Ohio, we offered businesses up to a \$100,000 tax credit to create a facility either on their premises or work in conjunction with other businesses in their area to create the physical facility. We gave them a tax break and said if you paid up to X dollars in subsidizing child care for your employees, this would be a direct credit against your State tax.

This would seem to be a major incentive that would attract new people, but I don't know what impact it would have on retaining folks that have been around for 20 years. All these things have to be put on the table and looked at, the costs involved in implementing them measured, and then figure out which ones within a limited budget you would offer to make a difference.

One last comment. This Thursday we are going to have a hearing on the National Partnership for Reinventing Government. We have had significant downsizing of the Federal Government but the administration did not consider the effects that downsizing would have on the delivery of government services. When we consider downsizing an agency or creating new incentives, we need to keep the mission of the agency in mind and ensure that we do not adversely affect the ability of the agency to carry out its mission. So I am interested in the testimony that we are going to hear on Thursday.

But I want to emphasize again that we need to evaluate this human capital crisis, do something short term, and then look at the long-term picture. And we need, Mr. Romero, some recommendations back from the administration. I will certainly do what I can to let the appropriators know that this is something that they ought to be paying some attention to.

I know we are going to see an increase in the defense budget this year. One of my concerns there is that it is all going to be spent on hardware when we have a human capital crisis in our military.

Thank you very much for your testimony today.

Ms. GROSS. Thank you.

Mr. ROMERO. Thank you.

Ms. KELLEY. Thank you.

Mr. BROSTEK. Thank you.

[Whereupon, at 11:48 a.m., the Subcommittee was adjourned.]



# APPENDIX

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## Statement of

**ROBERTA L. GROSS**  
Inspector General

**NATIONAL AERONAUTICS AND SPACE ADMINISTRATION**

## Before the

**Senate Subcommittee on Oversight of Government Management,  
Restructuring and the District of Columbia**

Mr. Chairman and members of the Committee,

I thank you for the opportunity to be here today to discuss Federal employee incentives both to attract and maintain a skilled workforce. NASA's past successful aerospace ventures demonstrate successful exploration of new galaxies and implementation of advanced technologies. Clearly, NASA's cutting-edge mission requires a creative, informed workforce including scientists, engineers, procurement specialists, budget specialists, program managers, network administrators, and probing, independent reviewers and evaluators. However, the failure to recruit, train, and retain the proper mix of a skilled workforce has recently resulted in some mission vulnerabilities and resulted, in part, in the costly Mars Climate Orbiter failure.<sup>1</sup>

My testimony generally will be based on the efforts to recruit and retain employees for the National Aeronautics and Space Administration (NASA) Office of Inspector General (OIG), and our observations of NASA's experiences in recruiting and retaining employees. I will focus particularly on issues relating to information technology (IT).

## Introduction

Technology, including information technology, is changing at unprecedented rates. Federal executives, managers, and human resource professionals find it increasingly difficult to locate and attract workers who have skills to manage the ever-changing pace of the IT revolution. This problem is exacerbated by the demographic trends in many Federal organizations

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<sup>1</sup>The Mars Climate Orbiter Mishap Investigation Board's *Report on Project Management in NASA*, March 13, 2000, noted that successful project management starts "with top-notch people and creating the right cultural environment in which they can excel." The Board found that the lack of adequate staffing contributed, in part, to the mission failure.

which, because of declining or flattened budgets and downsizing initiatives, have not been hiring those on the cutting edge of IT development and IT security and systems administration.

NASA, like many other Federal agencies, has been coping with declining budgets and downsizing initiatives. NASA lost (primarily through retirement and resignation) a total of 14,268 civil service employees from FY 1993 through the current period. The Agency's hiring of new employees has been steadily reduced in the last several years. The Agency was able to hire only 8,173 employees in the same timeframe. Consider, however, the change in NASA's utilization of two key sources for talented new hires, cooperative education students<sup>2</sup> and Presidential Management Interns (PMIs).<sup>3</sup> In FY 1993, NASA hired a total of 411 cooperative education student employees and PMIs. In FY 1999, only 206 of these employees had been hired.

Only recently has NASA begun to increase its hiring capability. This authority will provide the Agency with an opportunity to right-size, that is, replace staff with essential skills lost through attrition and buyouts, ensure an influx of new personnel who will become NASA's future leaders, as well as diversify and modernize its workforce. Administrator Daniel Goldin and his staff are working now on plans to improve the core capabilities of the NASA workforce.<sup>4</sup> NASA, based on its Core Capability Assessment of 1999, and a

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<sup>2</sup> The Cooperative Education Program is part of OPM's consolidated Student Educational Employment Program. The program provides Federal employment opportunities to students who are enrolled or accepted for enrollment as degree seeking students taking at least a half-time academic, technical, or vocational course load in an accredited high school, technical, vocational, 2 or 4 year college or university, or graduate or professional school. The program involves work experience that is directly related to the student's academic program and career goals. Successful program participants may be noncompetitively converted to term, career or career-conditional appointments following completion of their academic and work experience requirements. NASA has historically used this program as a principal "staffing pipeline" for engineering, scientific, and professional administrative positions.

<sup>3</sup>The Presidential Management Intern Program (PMI) was established by Presidential Executive Order in 1977. It is designed to attract to the federal service outstanding graduate students (Master's and Doctoral-level) from a wide variety of academic disciplines who have an interest in, and commitment to, a career in the analysis and management of public policies and programs. It is a two-year internship program which enables graduate degree students to be appointed to federal positions as PMIs and to also have the opportunity to be converted to a permanent federal civil service position following their successful internship. Interns are appointed at the GS-9 level and are generally converted to career-conditional appointments at the GS-12 level after successfully completing the internship.

<sup>4</sup> In the coming months, the NASA OIG will be evaluating the cost-effectiveness and utility of the plan and its implementation. A key issue is whether highly qualified technical and scientific staff will be willing to accept temporary or term appointments. Also, we will monitor whether NASA provides proper ethics guidance to the term employees. In making

commitment to the Office of Management and Budget, is developing staffing plans. The Agency cites the need to respond to the changing dynamics of the American workforce (i.e., employee mobility and benefits portability) and assumes that people entering Government service will stay for a few years and leave. Therefore, a significant aspect of NASA staffing plans will be the use of temporary and term appointments, including Intergovernmental Personnel Act (IPA) assignments, internships, and other non-traditional appointments. However, the tight labor market, particularly in the high-technology occupations, poses a daunting challenge for NASA and other department and agency Federal managers intent on upgrading workforces and organizational performance to meet emerging technology challenges.

### **The NASA OIG Experience**

Consider the NASA OIG's efforts to focus on NASA's information technology environment. We needed to recruit professionals who could effectively audit, inspect, and investigate technology matters critical to our Agency. When I became the NASA Inspector General, I committed the OIG to establishing IT audit and security evaluation programs and a computer crime unit because of NASA's extensive dependence on network systems.

Our Computer Crime Division (CCD) is small, but smart and efficient. In part, we have successfully recruited skilled staff for CCD because we offer higher grades and salaries possible under Federal personnel guidelines (GS-13, 14, and 15 levels). We have also created a work place increasingly known for its leadership in the computer crimes field – consistently applying and developing state-of-the-art techniques and methods, and offering staff ample opportunities for their creative capacities in a challenging Agency environment where results count. The CCD agents and technicians know that IT security impacts astronaut safety, satellite mission successes, and protection of cutting edge technology from inadvertent loss or malicious attacks.

However, recruitment in this occupational field is extremely difficult, and we have lost potential candidates and some on-board staff to the lure of the

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non-traditional appointments, the Agency must take care to counsel these employees on applicable Federal rules and regulations to avoid conflicts of interest or the appearance of such conflicts. A recent NASA OIG inspection of NASA's use of IPA assignments found that many individuals appointed to IPA positions in NASA held key decision-making posts. Although generally covered by Federal ethics rules, these employees are not required to file disclosure forms or receive ethics counseling. Without proper guidance and counseling, these individuals may unintentionally find themselves in positions of actual or apparent conflicts of interests.

private sector, with its higher salaries, more lucrative benefits, and greater flexibility to balance work and private life.

The following actual recruitments for IT professionals show the barriers we face in our recruitment efforts. These private sector announcements are emblematic of the competitive problems we face. One position, for a "Network Security Engineer" located in the mid-Atlantic region, offers a salary range of \$80,000 to \$120,000 per annum. The position which is similar to positions at the GS-13 and GS-14 levels in NASA (\$60,890 - \$93,537), also offers benefits not available in government service (e.g., profit sharing, stock options). Another position, "Network Security Consultant (Senior)" is very similar to GS-14 (\$71,954 - \$93,537) computer security professionals we attempt to hire for our computer crime unit. However, this private sector position, located in Northern Virginia, offers a salary range of \$90,000 to \$130,000 with benefits profit sharing and stock options we cannot match. Yet another position, located in suburban Maryland, "Digital Security Engineer," offers a salary level (\$90,000 - \$110,000) and benefits exceeding those we can offer. These are the kinds of lucrative opportunities to which we lose both employment candidates and our experienced on-board civil servants.

With the increase in computer crime, and the increasing capability of computer criminals, Federal law enforcement organizations need to increase professional competence and size of their staffs. The investigative community must be armed with the most sophisticated hardware and software to prevent and detect information crimes. More importantly, we must attract, deploy, and retain agents and other technical staff capable of understanding emerging technologies and matching the growing skills of hackers and other high-technology criminals. Federal agencies and departments must also staff their network systems with highly competent systems administrators, operators, and security managers. All of these efforts will cost more money. If such resources are not provided, and we do not adequately meet the challenge, we will inevitably lose more ground to the malicious and criminal side of the information technology world.

We have had similar difficulty in recruiting for our IT audit unit. I was extremely fortunate to have on-board an experienced, credentialed, IT auditor who could design an IT audit program and select and train staff. Our staffing effort for this unit, dating back over four years, consists of

recruiting outside auditors and evaluators with some IT familiarity, as well as training in-house auditors.<sup>5</sup>

We have attempted to use bonuses to recruit experienced IT auditors and evaluators, but have faced considerable difficulty. Unfortunately, Federal classification and staffing requirements have complicated our recruitment efforts. For example, the Federal auditor occupational series requires a minimum of 24 academic credit hours of accounting to qualify as an auditor. A number of highly qualified information technology auditors, with recognized credentials, did not qualify for these auditor positions under current Office of Personnel Management (OPM) staffing guidelines qualifications for auditors.<sup>6</sup>

OPM recognizes this general problem of outdated personnel series and has taken steps to respond more quickly to changes in labor markets. For instance, OPM recently released revised position classification and qualification standards for critical IT occupations which more accurately reflect current labor market conditions.

However, it is my experience, and based on anecdotal evidence, that it takes too long to create and then classify a new position,<sup>7</sup> open a recruitment announcement, analyze candidate qualifications, have a panel rate and rank highly qualified candidates, refer a list of candidates to a selecting official, interview candidates, and then offer a job. We have lost leading candidates in both audit and computer crime arenas to our private sector competitors because most companies can hire top-performing candidates faster than we can.

The acute need to provide a candidate pipeline for information technology security and computer crime professionals is heavily emphasized in Presidential Decision Directive 63, National Plan for Information Systems Protection. Richard Clarke, National Coordinator for Security, Infrastructure Protection, and Counter-Terrorism writes "...the plan will build a defense of

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<sup>5</sup> The IT audit staff began with very focused audits and received targeted specialized training prior to each audit. They continue to demonstrate increased skills, and are performing ever more complex audits, increasing our IT audit value to Agency managers.

<sup>6</sup> The NASA OIG Personnel Officer will raise this issue at the May Bimonthly OIG Personnel Directors Meeting to determine whether other OIGs have similar concerns.

<sup>7</sup> A position description for a highly complex information technology position must be carefully and accurately drafted. A crediting plan, based on the key attributes of the position, must then be developed to assure that qualified candidates are considered and unqualified candidates are excluded from further consideration. These activities are complicated and time-consuming for even the most knowledgeable manager.

our cyberspace relying on new security standards, multi-layered defensive technologies, new research, and trained people. Of all of these, the most urgently needed, the hardest to acquire, and the *sine qua non* for all else that we will do, is a cadre of trained computer science/information technology (IT) specialists." (emphasis supplied) Recognizing this need, OPM embarked on an IT occupational study which will help identify the number of IT positions in the Federal Government, the core competencies needed for these positions and the training and certification required for these positions. Additionally, a Scholarship for Service (STS) program was proposed within PPD 63 to recruit and educate the next generation of Federal IT workers and security managers. The program will fund students in their pursuit of undergraduate or graduate degrees in the information security field. In return, the students would serve in the Federal IT workforce for a fixed period after graduation. Moreover, the plan requires the development of a high school recruitment and training initiative. The program would identify promising high school students for participation in summer work and internship programs that would lead to certification to Federal IT workforce standards and possible future employment.

Similarly, the NASA OIG has recognized the need to expand interest in and increase the pipeline for information technology security and computer crime professionals. We will be initiating a special outreach program with colleges and universities. We also intend to forge partnerships with schools and departments of both criminal justice, computer science, and other related academic disciplines. We will look to create cooperative education opportunities, internships, specialized training, and career placement programs for our own OIG programs and to share with our colleagues in Offices of Inspector General, as well as other audit and law enforcement, and information security organizations. NASA, too, is planning extensive outreach programs with academia and the private sector. Although still in early development, NASA Centers plan to enhance or forge new relationships with universities and colleges involving placement of new science and research professionals.<sup>8</sup>

### **Impact of High-Cost Labor Markets**

NASA and other Federal organizations face a very real problem of recruiting for jobs in cities with high costs of living, such as those in Northern and Southern California. We have found recruiting in general, but specifically for IT professionals, for our location at the Ames Research Center (Ames) in the

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<sup>8</sup> The Administrator has also tasked his Senior Advisor to spearhead NASA's effort to create new relations with universities, industry and other scientific and technical agencies.



San Francisco Bay area to be extremely difficult. Current regional cost-of-living adjustments and existing incentives are not enough to compete in this labor market, especially in various high-technology fields.<sup>9</sup> During the last four years, we have continuously, but unsuccessfully, recruited for an IT criminal investigator or analyst for Ames. Even when candidates expressed an interest, the high cost of housing in the Bay area has resulted in candidates declining job offers. The ability to subsidize or otherwise provide housing may be one way to attract capable IT employees to such high cost of living areas.

Evaluation of high-cost labor markets should be continuous by OPM and Agency human resource staff, and then prompt and effective action should be taken to improve Federal competitiveness in these particularly competitive labor markets. As it is now, we and other agencies and their OIGs are losing the battle to attract talented IT workers.

### **Existing Incentives Are Often Not Used**

Director LaChance and her staff at OPM oversee a variety of authorities and provide numerous delegations to Federal agencies to assist in recruiting and retaining a skilled, creative, and effective Federal workforce. Additional incentives are available to agencies by OPM. For instance, agencies currently have authority to offer superior qualifications (above-the minimum) appointments that provide for advanced salary steps for candidates with superior qualifications. Individual recruitment bonuses up to 25% of salary may be paid to top performing candidates in hard-to-recruit categories. Similarly, agencies and departments also have the opportunity to offer recruitment bonuses for entire groups or categories of employees. For hard-to-replace, high performing individual employees currently in the civil service, retention allowances may be offered up to 25% of salary. Retention allowances may also be offered to specific employee groups or categories up to 10% of salary (up to 25% with OPM approval).<sup>10</sup> Unfortunately, many Federal organizations and managers have been hesitant, unwilling, or unable to use these incentives. OPM statistics indicate relatively slow growth in the use of recruitment and retention bonuses. Since FY 1996, NASA has offered only 53 recruitment bonuses, and only 9 retention

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<sup>9</sup> Voluntarily relocating in-service Federal employees to fill vacancies in these high-cost locations is also difficult even with full permanent change of station (relocation) costs and relocation bonuses. Directed (involuntary) reassignments pose serious morale problems because of the financial impact of the relocation.

<sup>10</sup> OPM's web site, <http://www.opm.gov/oca/pay>, provides an excellent overview of employment incentives including recruitment, relocation, and retention bonuses (See Title 5 of the Code of Federal Regulations, Part 573).

bonuses. NASA's new staffing initiatives envision more significant use of the bonuses in the future.

### **Innovative Use of Existing Incentives**

There are some best practices and models for energetic Federal recruitment and retention efforts. The Federal Chief Information Officers (CIO) Council has highlighted the State Department's initiative to fill its depleted IT professional ranks with highly qualified workers. After years of hiring constraints, the State Department received authorization to fill its open IT civil service billets in 1998. The Department's management used several of the existing recruitment and retention incentives, aggressively recruited (including sponsoring two of its own IT job fairs), and is now well on the way to filling its 300 IT vacancies worldwide. The Central Intelligence Agency (CIA) and the Internal Revenue Service (IRS) have also innovatively used existing authorities and delegations to improve recruitment for hard-to-fill positions.

The CIA initiated an aggressive and creative advertising campaign in newspapers and magazines, and on a dedicated Web site. The ads identifying "the ultimate international career," and appealed to candidates with an "adventurous spirit." To promote new technologies, the CIA also created a Silicon Valley venture capital company (In-Q-Tel) to encourage information technologists to apply for financing. In order to fill 100 vacant information technology positions in Washington and at its field offices, the IRS extended bonuses to candidates for GS-5 through GS-14 positions. Since initiating the program last summer, the IRS has hired more than 60 GS-5 to GS-7 computer programmers, and 20 GS-13 and GS-14 information technology positions. Previously, the IRS extended 10% retention bonuses to its information technology workforce already on-board, to help assure Year 2000 readiness.

Some recently initiated studies may offer blueprints for changes to Federal employment incentives. The CIO Council commissioned the National Academy of Public Administration to conduct a study on how information technology compensation in the Government compares to the private sector. OPM is also looking at offering special rates to Federal IT workers and considering possible Government-wide changes to Federal compensation. I am hopeful that these and other studies will provide us with the basis for prompt and effective changes to the aggregate Federal salary and benefit "package."

There can be no doubt that aside from monetary inducements and other benefits, the Federal personnel system needs to respond more promptly to changes in the overall labor market. As technology advances and changes, recognized professions change, occupations emerge, job specialties are created, and new credentials arise. Federal position classification and staffing practices need to mirror terminology, recognized credentials, and new job components of the job market.

### **Needed Emphasis on Human Resources Management**

Although Federal personnel workers are dedicated and enthusiastic about their jobs, their years of focusing on downsizing activities may have left these professionals without up-to-date recruitment skills, including a lack of contacts in relevant labor markets. In contrast, the private sector human resources community has been aggressively recruiting in this current boom economy. Similarly, much of the Federal human resource community has focused on organizing and running reductions-in-force and/or early-out retirement and buyout plans. Thus, their experience, skills, and strategies related to retaining employees might have suffered as well.

Also, as a result of reductions and reinventions of the Federal personnel community mandated by the National Performance Review, many personnel offices are understaffed and ill equipped to compete with their private sector counterparts. For example, from FY 1993 to the present, NASA lost almost 20% of its personnel specialists, many of them experienced veterans of staffing efforts. As a result, creative augmentations of the personnel workforce may be necessary, including temporary, term, part-time, and even contractors under appropriate circumstances. Federal personnel offices must attract and retain professionals and support staff that understand and can fully utilize the variety of existing programs and incentives provided under current law and regulation. Enhancing and upgrading the professional capabilities of our Federal personnel professionals must begin with the full attention and support of top management.

### **The Role of Federal Executives and Managers**

Too frequently, Federal managers - and I have found that to be the case even in my own operation - are unaware of the incentives available to them in recruiting staff. Moreover, even if fully knowledgeable of Federal recruitment incentives, they underestimate the real work impacts of not selecting the best possible candidates because of the reluctance to utilize higher cost approaches (e.g., higher grades, recruitment bonuses, invitational and recruitment visits with paid travel costs, etc.) There are real costs associated

with not being able to hire the very best candidates. For example, less experienced employees may require comprehensive training (which has impacts on the employees' availability). Another devastating impact of choosing less than the best qualified candidates is low morale from the overworked, under-resourced, on-board staff who must train new employees and shoulder even more responsibility until new employees are fully productive. Also, managers may hire employees who just are not fully capable of performing the job so that time-consuming performance-related actions may become necessary. So spending money up front to select the best available candidates may be the most cost-effective recruiting technique available to Federal managers.

### **Perceptions of Government Service**

Often, potential job candidates' perceptions of Government service color their decisions whether to apply for and accept a Federal job. The Third Report of the National Performance Review<sup>11</sup> states that "America was born angry at government." The report continues, "we feel our government has become distant and insensitive -- not to mention too big, too meddlesome, and too costly." The National Performance Review (now called National Partnership for Reinventing Government) has, in large part, been successful in streamlining operations, improving customer service, and reducing program costs in the Federal Government. However, the Review may have also contained an underlying tone that the work of Federal employees was unsatisfactory, and that many of them were no longer needed. Government workers are easy targets, and are often the recipients of unfair political and mass media criticism. As the NASA Inspector General, I know that our NASA employees often report allegations related to crime, fraud, waste, abuse, and mismanagement against NASA. This is because the vast majority of NASA workers want their Agency and Government to work effectively and efficiently. I think this perception of Federal employees' commitment to good government is also true of my colleague Inspectors General at other Federal agencies and departments. Various Congresses, Administrations, and political candidates from major parties, when attacking or criticizing Federal employees unintentionally may deter the most highly skilled and top performing individuals from entering and remaining in Government service. All Government leaders have the responsibility to publicly support and recognize the Federal workforce for its accomplishments and dedication to public service. By no means do I imply that there should be silence in the face of Government inefficiency and waste. However, we must all strive, in the interests of attracting the best

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<sup>11</sup> *Common Sense Government Works Better and Costs Less*, September 1995.

and the brightest to Government service, a balanced appraisal of Federal workforce performance and contributions.

In addition to salaries, bonuses, awards and other allowances, topnotch candidates are often attracted to organizations that are creative or otherwise highly regarded. NASA, for example, offers candidates an opportunity to perform important, cutting-edge science and research. At NASA, managers have the good fortune of working in a generally well-respected organization with an exciting mission. In the OIG, we have hired and retained top performing IT staff who can receive higher wages and better benefits outside of Government service. These critical staff remain with the OIG because of our mission and the Agency's mission. Building and maintaining organizations of excellence is possible for the Government sector. Outstanding employees will be drawn to progressive, visionary, and high performance organizations.

Employment candidates are also drawn to organizations that provide flexibility in work schedules and workplaces, and promote family life. In this respect too, Federal organizations and managers often underestimate the attractiveness of alternative work schedules, telecommuting, and the Federal family-friendly policies. In this regard, NASA offers a variety of work schedule flexibilities that are attractive to our employees. Although we can point to no specific study, we are convinced that offering these incentives has contributed to our recruitment and retention efforts.

Aside from salary and other monetary inducements, additional leadership is needed to encourage all levels of Federal managers to modernize Government workplaces and employee support programs. Workers looking for jobs are increasingly discriminating in selecting employers that offer an array of employee programs. Some of these inducements include health and wellness initiatives, family care supports (e.g., including child and elder care, and child education initiatives), and various forms of telecommuting. NASA has in place, or is actively developing or considering, many of these employee support programs. Federal agencies and departments have authorities to use most of these modern workplace incentives. However, their use and application depends on the leadership of every level of supervision, from the first-level supervisor to the Agency head.

### **Budget Constraints Often Limit Use of Incentives**

There are many no-cost and low-cost steps Federal agencies and departments, and individual managers can take to make their work environments more attractive to top performing employees and candidates.

However, we must all realize that the use of incentives requires a balancing of resources and has an opportunity cost. Faced with reduced budgets, agency comptrollers, personnel officers, and individual managers, have to make difficult choices every day on how to spend limited program funding. This feature of Federal management will never change, but Congress and the Administration need to assure, to the greatest extent possible, that adequate funds are provided to retain and upgrade a modern and highly skilled Federal workforce. Agency and department heads must fence off sufficient funds to adequately recruit and keep top performers and effectively balancing human resource costs.

### **Conclusion**

In summary, Congress and the Administration must take immediate steps to improve Government operations by encouraging Federal executives and managers to effectively use existing incentives, and to provide even more flexibilities to attract and retain the very best Federal employees. Our system of Federal employee incentives should be continuously reviewed and changed as global economic and labor markets pose new competitive challenges. We should continue to expand our benchmarking of corporate and industrial approaches to recruiting and retaining employees, and make changes to our incentive programs accordingly. We should train and encourage our Federal managers, executives, and human resources professionals to understand and use existing incentives, and to lead the Government in identifying and creating new incentives. Finally, Congress and the Administration should hold heads of Federal agencies and departments accountable for their leadership in establishing the kinds of Federal workplaces that will attract and keep the very best employees in Government service.

STATEMENT OF  
HENRY ROMERO, ASSOCIATE DIRECTOR  
FOR WORKFORCE COMPENSATION AND PERFORMANCE  
OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON OVERSIGHT OF  
GOVERNMENT MANAGEMENT, RESTRUCTURING  
AND THE DISTRICT OF COLUMBIA  
COMMITTEE ON GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

on

THE EFFECTIVENESS OF  
FEDERAL EMPLOYEE INCENTIVES

May 2, 2000

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I APPRECIATE THIS OPPORTUNITY TO APPEAR BEFORE YOU TO DISCUSS THE  
NUMEROUS FEDERAL EMPLOYEE INCENTIVES AND THEIR EFFECTIVENESS.  
WITH YOUR PERMISSION, RATHER THAN DISCUSS EACH OF THE INCENTIVES  
AVAILABLE INDIVIDUALLY, I WILL TALK ABOUT PAY, OTHER COMPENSATION  
INCENTIVES, WORK SCHEDULING AND LEAVE FLEXIBILITIES, AND AWARDS IN  
MORE GENERAL TERMS, HIGHLIGHTING SPECIFIC ITEMS AS APPROPRIATE, AND  
ATTACH TO MY FORMAL STATEMENT A LIST OF INCENTIVES WITH A BRIEF  
DESCRIPTION OF EACH.

AS OUR DIRECTOR, JANICE LACHANCE, ARTICULATED BEFORE THIS SUBCOMMITTEE IN EARLY MARCH, WE AT THE OFFICE OF PERSONNEL MANAGEMENT BELIEVE THAT, LIKE THE PRIVATE SECTOR, THE FEDERAL GOVERNMENT MUST ENGAGE IN THE "WAR FOR TALENT." IN OUR VIEW, WINNING THIS "WAR" REQUIRES NOT ONLY AGGRESSIVELY COMPETING FOR HIGHLY-SKILLED NEW EMPLOYEES, BUT ALSO RETAINING AND DEVELOPING OUR CURRENT WORKFORCE. WE INTEND TO MEET THESE CHALLENGES BY ENSURING AGENCIES' EFFECTIVE USE OF EXISTING INCENTIVES AND FLEXIBILITY TOOLS, WHILE REFINING OUR CURRENT POLICIES, SYSTEMS, AND SERVICES AS WELL AS DEVELOPING ADDITIONAL FLEXIBILITIES TO ADDRESS BOTH GOVERNMENTWIDE AND PARTICULAR SITUATIONS.

#### PAY

TRADITIONALLY, THE MOST IMPORTANT INCENTIVE TO ATTRACT NEW FEDERAL EMPLOYEES OR TO MOTIVATE CURRENT EMPLOYEES HAS BEEN PAY. ESPECIALLY IN A TIGHT LABOR MARKET, LIKE THE ONE WE HAVE BEEN EXPERIENCING OVER THE LAST FEW YEARS, IT IS IMPORTANT THAT THE BASIC SALARY WE PAY OUR EMPLOYEES BE COMPETITIVE WITH THAT OFFERED BY OTHER EMPLOYERS FOR SIMILAR KINDS AND LEVELS OF WORK. THIS IS A GOAL THAT HAS HISTORICALLY BEEN DIFFICULT TO ACHIEVE. IT IS ALSO FAIR TO SAY THAT THERE HAS BEEN CONSIDERABLE CONTROVERSY OVER THE YEARS ABOUT HOW TO COMPARE THE SALARIES OF FEDERAL AND NON-FEDERAL EMPLOYEES IN A MEANINGFUL WAY.



WHILE WE CONTINUE TO WORK TO RESOLVE THESE CONTROVERSIES, I AM PLEASED TO REPORT THAT DURING THE LAST TWO YEARS, THE PRESIDENT AND THE CONGRESS HAVE AGREED TO FEDERAL EMPLOYEE PAY INCREASES TOTALING MORE THAN 8 PERCENT, WHICH EXCEEDS THE RECENT WAGE GROWTH IN THE PRIVATE SECTOR. THIS YEAR, FEDERAL EMPLOYEES RECEIVED AN AVERAGE PAY INCREASE OF 4.8 PERCENT. THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2001 CONTINUES THAT TREND BY PROPOSING AN OVERALL PAY INCREASE OF 3.7 PERCENT. IF ENACTED, THIS TWO-YEAR INCREASE WOULD BE THE LARGEST TWO-YEAR JUMP SINCE 1981-1982.

IN ADDITION TO THE 3.7 PERCENT INCREASE, THE PRESIDENT'S BUDGET CALLS FOR ELIMINATING THE HIGHER RETIREMENT CONTRIBUTIONS MANDATED BY THE BALANCED BUDGET ACT OF 1997, WHICH ARE SCHEDULED TO REACH 0.5 PERCENT IN 2001.

AND WE ARE ALSO WORKING ON A MAJOR NEW BENEFIT FOR FEDERAL EMPLOYEES, TO TAKE EFFECT BY OCTOBER OF THIS YEAR, THAT WILL PROVIDE THEM THE SAME TAX BENEFITS OF HEALTH INSURANCE PREMIUM CONVERSION THAT ARE PROVIDED BY MOST OTHER EMPLOYERS. FEDERAL EMPLOYEES WILL SAVE AN AVERAGE OF \$434 PER YEAR ON THEIR FEDERAL INCOME TAXES.

TOGETHER, THESE PROPOSALS WOULD BE EQUIVALENT TO A PAY INCREASE OF OVER 5 PERCENT NEXT YEAR-- THE LARGEST PACKAGE OF PROPOSED COMPENSATION INCREASES FOR FEDERAL EMPLOYEES SINCE 1980.

IN ADDITION TO THE COMPENSATION INCREASES, THE PRESIDENT RECENTLY DIRECTED FEDERAL AGENCIES TO USE EXISTING AUTHORITIES TO IMPLEMENT TRANSPORTATION FRINGE BENEFIT PROGRAMS FOR THEIR EMPLOYEES. THESE PROGRAMS WOULD OFFER QUALIFIED FEDERAL EMPLOYEES THE OPPORTUNITY TO EXCLUDE FROM TAXATION COMMUTING COSTS INCURRED WHEN USING MASS TRANSPORTATION AND VANPOOLS.

#### **OTHER COMPENSATION INCENTIVES**

A COMPETITIVE BASIC SALARY IS JUST ONE PART OF ANY EMPLOYER'S STRATEGY FOR ATTRACTING AND RETAINING THE WORKFORCE IT NEEDS. OVER THE YEARS, RECOGNIZING THAT SPECIAL RECRUITMENT AND RETENTION INCENTIVES MAY BE NEEDED TO ATTRACT AND RETAIN FEDERAL EMPLOYEES IN SPECIAL SITUATIONS, OPM AND CONGRESS HAVE PROVIDED A NUMBER OF FLEXIBILITIES FOR AGENCIES TO USE.

FOR EXAMPLE, CURRENT LAW AUTHORIZES OPM TO ESTABLISH HIGHER BASIC SALARIES (WHICH WE CALL "SPECIAL SALARY RATES") FOR SPECIFIC OCCUPATIONS OR GEOGRAPHIC LOCATIONS WHEN FEDERAL AGENCIES ARE

EXPERIENCING--OR ARE LIKELY TO EXPERIENCE--SIGNIFICANT RECRUITMENT OR RETENTION PROBLEMS BECAUSE OF HIGHER NON-FEDERAL SALARIES.

SPECIAL RATES HAVE PROVEN TO BE A VERY POWERFUL COMPENSATION TOOL. ALMOST 10 PERCENT OF ALL CURRENT GENERAL SCHEDULE EMPLOYEES--INCLUDING MANY ENGINEERS, HEALTH CARE WORKERS, AND CLERICAL EMPLOYEES IN CERTAIN HIGH-PAYING METROPOLITAN AREAS--NOW RECEIVE HIGHER BASIC PAY UNDER THIS AUTHORITY.

IN ADDITION TO SPECIAL RATES, CONGRESS HAS ALSO AUTHORIZED RECRUITMENT BONUSES AND RETENTION ALLOWANCES. THESE INCENTIVES ARE DESIGNED TO BE USED IN A MORE TARGETED FASHION THAN SPECIAL RATES. THE RECRUITMENT BONUS AUTHORITY GIVES FEDERAL AGENCIES A TOOL TO ATTRACT A SPECIFIC CANDIDATE WITH SPECIAL SKILLS, OR FOR WHICH THE GOVERNMENT HAS A SPECIAL NEED, WHEN THE POSITION INVOLVED OTHERWISE WOULD BE DIFFICULT TO FILL. SIMILARLY, THE RETENTION ALLOWANCE AUTHORITY HELPS FEDERAL AGENCIES RETAIN EMPLOYEES WITH SPECIAL SKILLS, OR FOR WHICH THE GOVERNMENT HAS A SPECIAL NEED, WHEN THEY OTHERWISE WOULD BE LIKELY TO LEAVE. THESE PAYMENTS CAN BE UP TO 25 PERCENT OF BASIC PAY.

THESE RECRUITMENT AND RETENTION INCENTIVES MAY BE USED AT ANY GRADE LEVEL. IN FACT, 26 PERCENT OF ALL RECRUITMENT BONUSES PAID IN FISCAL YEAR 1998 WERE PAID TO EMPLOYEES AT GRADE GS-7, AN ENTRY-LEVEL GRADE.

SINCE 1991, WHEN RECRUITMENT BONUSES AND RETENTION ALLOWANCES FIRST BECAME AVAILABLE, FEDERAL AGENCIES HAVE TAKEN A CAUTIOUS APPROACH TOWARD USING THESE AUTHORITIES. IN THE LAST FEW YEARS, WE HAVE BEGUN TO SEE THEM BEING USED SLIGHTLY MORE WIDELY.

RECRUITMENT BONUS USE GREW SLOWLY BUT STEADILY, WITH 435 BEING GIVEN IN FISCAL YEAR 1997. DURING FY 1998, HOWEVER, WE WITNESSED SIGNIFICANT GROWTH. IN THAT YEAR, 1,089 RECRUITMENT BONUSES WERE GIVEN. RETENTION ALLOWANCES ARE MORE POPULAR, HAVING BEEN GIVEN TO 1,072 EMPLOYEES IN FISCAL YEAR 1997, AND TO 2,361 EMPLOYEES IN FY 1998.

STILL, THE OVERALL USE OF THESE AUTHORITIES REMAINS LOW. RECENTLY, OPM DISCUSSED THE NEED FOR SOME CHANGES IN THESE AUTHORITIES WITH AGENCY HUMAN RESOURCES OFFICIALS, FEDERAL EMPLOYEE UNIONS, AND REPRESENTATIVES OF MANAGEMENT ASSOCIATIONS. AS A RESULT OF THESE DISCUSSIONS, WE ARE LOOKING AT LEGISLATIVE AND ADMINISTRATIVE OPTIONS TO ENHANCE THESE AUTHORITIES AND TO MAKE THEM MORE FLEXIBLE, SO THAT AGENCIES WILL BE ABLE TO USE THEM IN A WIDER

VARIETY OF CIRCUMSTANCES AND WITH MORE DELIVERY OPTIONS. OPTIONS WE ARE EXPLORING INCLUDE INCREASING THE SIZE OF RECRUITMENT AND RETENTION INCENTIVES AND ALLOWING A VARIETY OF PAYMENT METHODS.

#### **WORK SCHEDULING AND LEAVE FLEXIBILITIES**

ALTHOUGH DIRECT COMPENSATION IS A VERY IMPORTANT PART OF ANY EMPLOYER'S STRATEGY FOR ATTRACTING NEW EMPLOYEES AND MOTIVATING CURRENT EMPLOYEES, WE RECOGNIZE THAT PAY IS NOT THE ONLY COMPONENT OF A SUCCESSFUL STRATEGY. THAT'S WHY WE HAVE ADOPTED A PERSPECTIVE WE CALL THE "STRATEGIC REWARDS" APPROACH. SIMPLY PUT, THIS APPROACH ACKNOWLEDGES THAT AN ORGANIZATION'S REWARD SYSTEM INVOLVES ALL ASPECTS OF A WORK SITUATION.

FOR EXAMPLE, TO SUCCESSFULLY ATTRACT AND RETAIN THE WORKFORCE IT NEEDS IN TODAY'S FAST-MOVING ECONOMY, AN EMPLOYER MUST RECOGNIZE THAT MANY EMPLOYEES FACE THE NEED TO BALANCE WORK AND FAMILY RESPONSIBILITIES ON A DAILY BASIS. ON THIS SCORE, THE FEDERAL GOVERNMENT, AS AN EMPLOYER, CLEARLY HAS BEEN A LEADER FOR MORE THAN TWO DECADES.

FEDERAL EMPLOYEES AGREE. WHEN THE NATIONAL PARTNERSHIP FOR REINVENTING GOVERNMENT (NPR) SURVEYED FEDERAL EMPLOYEES LAST

FALL, EMPLOYEES REPORTED THAT THEIR SUPERVISORS SUPPORT THEIR FAMILY AND PERSONAL LIFE RESPONSIBILITIES, AND SEVERAL DESCRIBED HOW THE GOVERNMENT'S FAMILY-FRIENDLY POLICIES HAVE HELPED THEM DEAL WITH FAMILY CRISES.

FLEXIBLE WORK SCHEDULES WERE FIRST INTRODUCED IN THE FEDERAL GOVERNMENT IN THE LATE 1970s AND BECAME A PERMANENT FEATURE OF THE FEDERAL WORK ENVIRONMENT IN 1984. UNDER THE GOVERNMENT'S FLEXIBLE AND COMPRESSED WORK SCHEDULES PROGRAM (WHICH WE COLLECTIVELY REFER TO AS "ALTERNATIVE WORK SCHEDULES"), MANY FEDERAL EMPLOYEES HAVE A WIDE VARIETY OF WORK SCHEDULING OPTIONS AVAILABLE TO THEM, AND FEDERAL AGENCIES HAVE MADE GOOD USE OF THIS PROGRAM. WE RECOGNIZE THAT SOME WORK SITUATIONS DO NOT LEND THEMSELVES WELL TO FLEXIBLE WORK HOURS. EVEN SO, WE ARE PROUD THAT ABOUT HALF OF ALL NON-POSTAL FEDERAL EMPLOYEES TAKE ADVANTAGE OF THIS PROGRAM, WHICH HAS BECOME A MODEL FOR NON-FEDERAL EMPLOYERS, AS WELL.

JUST AS ALTERNATIVE WORK SCHEDULES PERMIT EMPLOYEES AND AGENCIES TO CHOOSE SCHEDULES THAT MEET THE DEMANDS OF BOTH THE INDIVIDUALS AND THEIR ORGANIZATIONS, TELEWORK PROGRAMS HAVE EXTENDED EMPLOYEE WORK ENVIRONMENTS TO INCLUDE LOCATIONS OTHER THAN THE TRADITIONAL OFFICE SETTING. WHETHER AT A TELECOMMUTING CENTER OR A

HOME WORKSITE, THIS FLEXIBILITY GENERALLY USES TECHNOLOGY TO ENABLE EMPLOYEES TO BE PRODUCTIVE AND AGENCIES TO ACHIEVE THEIR GOALS. OF COURSE, THE ACCOMPANYING REDUCTIONS IN TRAFFIC AND AUTOMOTIVE POLLUTION SPREAD THE BENEFIT TO THE GENERAL PUBLIC. ONCE AGAIN, THE PROGRAM MAY BE IMPLEMENTED IN A WAY THAT ADDRESSES THE SPECIFIC NEEDS OF BOTH AGENCIES AND EMPLOYEES.

THE FEDERAL GOVERNMENT ALSO HAS BEEN A LEADER IN INTRODUCING FAMILY-FRIENDLY LEAVE PROGRAMS. THE ANNUAL (VACATION) LEAVE AND SICK LEAVE SYSTEM HAS BEEN SUPPLEMENTED IN RECENT YEARS BY A NUMBER OF NEW PROGRAMS AND FLEXIBILITIES, INCLUDING LEAVE SHARING, UNPAID FAMILY AND MEDICAL LEAVE, PAID SICK LEAVE FOR FAMILY CARE AND ADOPTION PURPOSES, AND ADDITIONAL PAID LEAVE FOR ORGAN DONATION PURPOSES.

ALL OF THESE PROGRAMS HAVE BEEN WELL PUBLICIZED THROUGHOUT THE FEDERAL WORKFORCE, AND MANY EMPLOYEES SAY THE FEDERAL GOVERNMENT IS THEIR EMPLOYER OF CHOICE BECAUSE OF THESE FLEXIBILITIES.

IN THE ATTACHMENT TO MY FORMAL STATEMENT, WE ARE PROVIDING THE SUBCOMMITTEE WITH MORE DETAILED INFORMATION ABOUT OUR WORK

SCHEDULING AND LEAVE PROGRAMS. HOWEVER, I WOULD LIKE TO CALL YOUR ATTENTION TO A RECENT AND VERY IMPORTANT LEAVE POLICY INITIATIVE. IN RESPONSE TO A PRESIDENTIAL DIRECTIVE LAST YEAR, WE WILL BE IMPLEMENTING A MAJOR ENHANCEMENT TO OUR SICK LEAVE PROGRAM. UNDER FINAL REGULATIONS THAT WILL BE ISSUED VERY SOON, FEDERAL EMPLOYEES WILL BE ABLE TO USE A TOTAL OF UP TO 12 WEEKS OF ACCRUED PAID SICK LEAVE EACH YEAR TO CARE FOR A FAMILY MEMBER WITH A SERIOUS HEALTH CONDITION.

THIS EXPANDED SICK LEAVE BENEFIT WILL ENABLE A FEDERAL EMPLOYEE TO PROVIDE CARE FOR A SERIOUSLY ILL FAMILY MEMBER WITHOUT FEAR OF LOSING HIS OR HER JOB AND WITHOUT THE ADDITIONAL FINANCIAL SACRIFICE THAT TOO OFTEN ACCOMPANIES A FAMILY MEMBER'S MAJOR MEDICAL PROBLEMS. WE BELIEVE THIS ENHANCEMENT TO THE FEDERAL GOVERNMENT'S SICK LEAVE POLICY IS YET ANOTHER INCENTIVE THAT WILL HELP US RECRUIT AND RETAIN WORKERS, AND ONE THAT WE HOPE BECOMES A MODEL FOR OTHER EMPLOYERS TO FOLLOW.

MOREOVER, TO ATTRACT NEW EMPLOYEES AT ALL LEVELS TO THE FEDERAL GOVERNMENT, WE ARE ALSO STUDYING THE GRANT OF LEAVE CREDITS OF UP TO 80 HOURS AS A TOOL FOR AGENCIES TO USE FOR HARD-TO-FILL POSITIONS.



**AWARDS**

THE FEDERAL GOVERNMENT'S AWARDS STATUTE PROVIDES A BROAD FRAMEWORK THAT AUTHORIZES AGENCIES TO PROVIDE INCENTIVES AND RECOGNITION TO THEIR EMPLOYEES FOR SUPERIOR PERFORMANCE AND SIGNIFICANT ACCOMPLISHMENTS. OPM REGULATIONS AND POLICIES CONTINUE THIS DECENTRALIZED, EXPANSIVE APPROACH THAT ALLOWS AGENCIES TO DESIGN PROGRAMS THAT WILL WORK FOR THEM.

OPM PROVIDES EXTENSIVE GUIDANCE TO AGENCIES ABOUT WAYS TO USE INCENTIVES. FOR EXAMPLE, THE OFFICE OF PERSONNEL MANAGEMENT OFTEN FEATURES ARTICLES IN ITS BI-MONTHLY NEWSLETTER, *WORKFORCE PERFORMANCE*, HIGHLIGHTING EFFECTIVE AGENCY PRACTICES. OTHER ARTICLES ADDRESS POLICIES AND PRACTICES AGENCIES CAN ADOPT TO MAXIMIZE THEIR PROGRAM EFFECTIVENESS. ALL OF THIS INFORMATION IS AVAILABLE ON THE OPM WEBSITE FOR EASY AGENCY ACCESS. THEIR WIDESPREAD USE OF THESE AWARDS INDICATES THAT KNOWLEDGE ABOUT THESE PROGRAMS IS UNIVERSAL THROUGHOUT GOVERNMENT.

OVER THE YEARS, THE FEDERAL GOVERNMENT HAS ESTABLISHED AN EXCELLENT RECORD OF INCLUDING MANY MORE LOWER-LEVEL EMPLOYEES IN SUCH AWARDS PROGRAMS THAN HAS BEEN THE PRACTICE IN THE PRIVATE

SECTOR. AWARDS PROGRAMS ALSO GIVE AGENCIES A MEANS OF PROVIDING ADDITIONAL COMPENSATION TO REWARD SHORT-TERM ACCOMPLISHMENTS AS WELL AS DESIGNING LONG-TERM INCENTIVE PROGRAMS THAT FOCUS EMPLOYEE ENERGY ON ATTAINING SPECIFIC AGENCY OUTCOMES AND GOALS. BOTH OF THESE STRATEGIES CAN SUCCESSFULLY HELP ATTRACT AND RETAIN EMPLOYEES WHEN THE PROGRAM'S PURPOSE AND CRITERIA ARE CLEARLY COMMUNICATED AND ESTABLISH A CLEAR LINE OF SIGHT BETWEEN THE AGENCY'S MISSION AND GOALS AND THE AWARDS GIVEN.

#### **TRENDS IN AWARDS USE**

DURING THE 1980s AND EARLY 1990s, AGENCIES PRIMARILY DISTRIBUTED CASH AWARDS TO EMPLOYEES USING PERFORMANCE BONUSES TIED TO THE EMPLOYEES' ANNUAL PERFORMANCE RATINGS. IN MORE RECENT YEARS, STATISTICS SHOW THAT AGENCIES ARE MOVING AWAY FROM USING PERFORMANCE AWARDS BASED SOLELY ON PERFORMANCE RATINGS. INSTEAD, THEY ARE MAKING GREATER USE OF AWARDS BASED ON SPECIFIC ACCOMPLISHMENTS. THIS APPROACH BETTER REINFORCES THE LINE OF SIGHT AND RECOGNITION VALUE OF THE AWARD BY SPECIFYING WHAT ACCOMPLISHMENT IS BEING REWARDED.

GENERALLY, AGENCY SPENDING ON AWARDS HAS REMAINED FAIRLY CONSTANT AT ABOUT ONE PERCENT OF TOTAL SALARIES OVER THE LAST 10

YEARS FOR WHICH WE HAVE STATISTICS. THE LATEST STATISTICS AVAILABLE SHOW THAT FOR FISCAL YEAR 1998 AGENCIES GAVE OUT 589,965 RATING-BASED PERFORMANCE AWARDS; THEREFORE, ABOUT 33 IN EVERY 100 EMPLOYEES RECEIVED ONE. AGENCIES ALSO GRANTED 658,530 OTHER AWARDS BASED ON SPECIFIC EMPLOYEE CONTRIBUTIONS, WHICH REPRESENTS A RATE OF 36 AWARDED FOR EVERY 100 EMPLOYEES.

#### **AWARD PROGRAM FLEXIBILITY**

UNDER THE LEADERSHIP OPM PROVIDES THROUGH ITS BROAD REGULATORY GUIDELINES AND POLICIES, AGENCIES DESIGN THEIR OWN AWARDS PROGRAMS. THEY HAVE FULL FLEXIBILITY TO CUSTOMIZE THEIR PROGRAMS TO BEST MEET THEIR INDIVIDUAL NEEDS. AWARDS PROGRAMS MUST BE FLEXIBLE TO PERMIT LOCAL ORGANIZATIONS TO TAILOR THEIR PROGRAMS AND TO ALLOW FOR APPROPRIATE RECOGNITION OF DIFFERENT FORMS AND DEGREES OF ACCOMPLISHMENT.

TO BE SUCCESSFUL, AWARDS PROGRAMS MUST BE CREDIBLE TO EMPLOYEES AND THEIR REPRESENTATIVES. AGENCIES MUST DEVELOP MORE TRANSPARENT AND CREDIBLE CRITERIA AND TO INCREASE EMPLOYEE INVOLVEMENT IN THE DEVELOPMENT OF THEIR PROGRAMS. IN THIS WAY, EVERYONE HAS A BETTER UNDERSTANDING OF THE PURPOSE OF THE PROGRAM AND HOW IT WORKS. INCREASED UNDERSTANDING LEADS TO GREATER ACCEPTANCE AND

AGREEMENT THAT THE RIGHT PEOPLE AND ACCOMPLISHMENTS ARE BEING REWARDED. AWARDS PROGRAMS HAVE PROVIDED AN ARENA WHERE AGENCY LABOR-MANAGEMENT PARTNERSHIPS PRODUCE POSITIVE RESULTS FOR THE ORGANIZATION AND ITS EMPLOYEES, AS SEEN, FOR EXAMPLE, IN THE AWARDS PROGRAM DEVELOPED AT TOBYHANNA ARMY DEPOT IN PENNSYLVANIA, WHICH THE NATIONAL PARTNERSHIP COUNCIL RECOGNIZED WITH ITS PRESTIGIOUS STURDIVANT AWARD.

IN ADDITION, DESIGN FLEXIBILITY IS IMPORTANT FOR KEEPING PROGRAMS FRESH AND APPEALING TO EMPLOYEES AND MANAGERS ALIKE. ADAPTING AND REFINING AWARDS PROGRAMS AND CRITERIA ARE A NATURAL PART OF AN ORGANIZATION'S ONGOING USE OF REWARDS AND RECOGNITION. SUCH CHANGES NEED NOT MEAN THAT THE PROGRAM WAS POORLY DESIGNED IN THE FIRST PLACE; THEY SIMPLY REFLECT THE NEED TO MONITOR PROGRAM EFFECTIVENESS AND MAKE APPROPRIATE ADJUSTMENTS. NEW STRATEGIC INITIATIVES OFTEN BRING OPPORTUNITIES TO EMPHASIZE NEW THEMES WITH DIFFERENT SYMBOLS AND FRESH IDEAS.

#### **DEMONSTRATION PROJECTS**

IN THE FEDERAL ARENA, INITIATIVES OF THE FUTURE OFTEN BEGIN AS DEMONSTRATION PROJECTS. CURRENTLY, WE ARE USING THE DEMONSTRATION PROJECT AUTHORITY TO TEST AND EVALUATE FLEXIBILITIES IN THE AREAS OF RECRUITMENT, HIRING, AND RETENTION.

FOR EXAMPLE, IN TERMS OF ATTRACTING TALENT, WE CERTAINLY RECOGNIZE THAT QUALITY CANDIDATES THESE DAYS MAY BE AVAILABLE FOR ONLY DAYS, NOT MONTHS. MANAGERS WANT AND NEED THE ABILITY TO HIRE FASTER AND OFFER MORE COMPETITIVE SALARIES. IN SOME DEMONSTRATION PROJECTS, THE HIRING PROCESS HAS BEEN STREAMLINED IN GENERAL, OR SPECIAL HIRING AUTHORITIES HAVE BEEN ESTABLISHED TO ATTRACT HIGH-ACHIEVING ENTRY-LEVEL CANDIDATES IN SPECIFIC OCCUPATIONS. IN OTHERS, MANAGERS ARE ABLE TO OFFER HIGHER ENTRY-LEVEL SALARIES FOR QUALITY CANDIDATES.

THROUGH OUR PAY-FOR-PERFORMANCE PROJECTS, WE HAVE LEARNED THAT MORE OUTSTANDING PERFORMERS ARE RETAINED WHEN THEY ARE ABLE TO EARN MORE MONEY THAN MARGINAL PERFORMERS. LIKEWISE MARGINAL PERFORMERS ARE SENT A CLEAR MESSAGE TO IMPROVE THEIR PERFORMANCE. OVERALL, WE HAVE LEARNED THAT THE ABILITY TO LINK PAY TO PERFORMANCE, CONTRIBUTIONS, OR RESULTS IS A POWERFUL STRATEGIC TOOL TO TRANSFORM AN ORGANIZATION INTO A HIGH-PERFORMANCE CULTURE.

WE HAVE BEEN EXPLORING WAYS TO STREAMLINE AND SIMPLIFY THE CURRENT DEMONSTRATION PROJECT AUTHORITY AND PROCESSES, TO CREATE A MECHANISM FOR SUCCESSFUL DEMONSTRATION PROJECTS TO BECOME PERMANENT ALTERNATIVE PERSONNEL SYSTEMS, AND TO ALLOW SUCCESSFULLY TESTED INNOVATIONS TO BE USED BY OTHER AGENCIES.

**OTHER STRATEGIC REWARDS**

HOWEVER, OUTSIDE THE TRADITIONAL PAY AND BENEFITS REALM, THERE IS GROWING EVIDENCE ABOUT THE FACTORS THAT REALLY MAKE A DIFFERENCE IN RETAINING SCARCE TALENT TO MEET STRATEGIC GOALS. REWARDS SYSTEM DESIGNERS HAVE IDENTIFIED TWO ELEMENTS.

THE FIRST TYPICALLY IS CALLED "LEARNING AND DEVELOPMENT," AND THE SECOND IS OFTEN REFERRED TO AS "WORKPLACE ENVIRONMENT." IN OTHER WORDS, THE REWARDS THAT REALLY MATTER TO PEOPLE AND MAKE A DIFFERENCE IN THEIR DECISIONS TO STAY WITH AN EMPLOYER RELATE TO HOW WELL THE ORGANIZATION SUPPORTS THEIR SKILLS BUILDING AND THE KIND OF WORK SETTING THE ORGANIZATION PROVIDES.

WITH REGARD TO THE FIRST ITEM, IT SHOULD BE NOTED THAT FOR MANY YEARS AGENCIES HAVE HAD THE AUTHORITY TO ESTABLISH TUITION ASSISTANCE AND REIMBURSEMENT PROGRAMS. THESE TUITION ASSISTANCE PROGRAMS PAY SOME OR ALL OF THE COSTS OF COLLEGE COURSES AND PROVIDE FEDERAL EMPLOYEES WITH OPPORTUNITIES TO ROUND OUT THEIR ACADEMIC BACKGROUNDS AND BROADEN THEIR TECHNICAL OR PROFESSIONAL KNOWLEDGE. WE HAVE ALSO PREPARED A LEGISLATIVE PROPOSAL TO EXPAND THE CONDITIONS WHICH ALLOW AGENCIES TO PAY FOR ACADEMIC DEGREE TRAINING, AND TO PERMIT AGENCIES TO PAY FOR EMPLOYEES' LICENSES, CERTIFICATES, AND OTHER PROFESSIONAL CREDENTIALS.

A MORE RECENT INNOVATION IS THE INDIVIDUAL LEARNING ACCOUNT, WHICH IS NOW BEING PILOTED BY THIRTEEN FEDERAL AGENCIES. THESE ACCOUNTS ALLOW AGENCIES TO SET ASIDE SPECIFIC DOLLAR AMOUNTS AND/OR OFFICIAL TIME FOR EMPLOYEES TO USE FOR THEIR LEARNING AND DEVELOPMENT. ALTHOUGH THESE PILOTS ARE JUST BEGINNING, WE LOOK FORWARD TO AN OPPORTUNITY TO EVALUATE THEIR OVERALL VALUE AND BENEFIT TO THE PUBLIC AND TO THE GOVERNMENT AT LARGE.

WITH RESPECT TO THE WORKPLACE ENVIRONMENT, I DID MENTION EARLIER THE TELEWORK AND ALTERNATIVE WORK SCHEDULES PROGRAMS WHICH HELP EMPLOYEES BALANCE WORK AND FAMILY OBLIGATIONS. IT IS ALSO IMPORTANT TO NOTE THAT FEDERAL EMPLOYEES HAVE ACCESS TO MORE THAN 250 FEDERALLY SPONSORED OR ASSISTED CHILD CARE SITES AROUND THE COUNTRY. IN ADDITION, WE ARE VERY PLEASED THAT RECENTLY PASSED LEGISLATION PERMITS AGENCIES TO USE APPROPRIATED FUNDS TO MAKE CHILD CARE MORE AFFORDABLE FOR THEIR LOWER INCOME EMPLOYEES.

WHEN YOU ADD AGENCY-SPONSORED WELLNESS AND ELDER CARE ASSISTANCE PROGRAMS, IT IS OBVIOUS THAT THE FEDERAL GOVERNMENT HAS MADE GREAT STRIDES IN IMPROVING THE WORKPLACE ENVIRONMENT FOR ITS EMPLOYEES.

IT IS BECOMING INCREASINGLY CLEAR THAT THESE PROGRAMS MAKE A REAL DIFFERENCE IN ATTRACTING AND RETAINING THE TALENT WE NEED TO

ACCOMPLISH OUR MISSIONS. THE RECENT NPR SURVEY OF FEDERAL EMPLOYEES CONFIRMED A RELATIONSHIP BETWEEN THE QUALITY OF THESE PROGRAMS AND EMPLOYEE SATISFACTION.

### **LEADERSHIP**

OF COURSE, THE QUALITY OF LEADERSHIP THAT AN ORGANIZATION'S MANAGEMENT TEAM PROVIDES IS ALSO A CRUCIAL FACTOR IN THAT ENVIRONMENT. SOME COMPANIES WITH RETENTION PROBLEMS HAVE FOUND THAT FORMER EMPLOYEES LIKED THE WORK AND EVEN THE PAY, BUT COULD NO LONGER STAND THE WAY THEIR SUPERVISORS FAILED TO INVOLVE THEM OR RECOGNIZE THEIR CONTRIBUTIONS.

HERE, TOO, THE RECENT NPR SURVEY PROVIDED EVIDENCE OF THE CONNECTION BETWEEN EMPLOYEE SATISFACTION AND THE DEGREE TO WHICH THEIR AGENCIES INVOLVED THEM IN DECISIONS ABOUT THEIR WORK, SHARED A CLEAR VISION OF THE AGENCIES' CUSTOMER SERVICE GOALS, AND RECOGNIZED THEIR CONTRIBUTIONS.

MANY HIGH-PERFORMANCE ORGANIZATIONS TAKE PAINS TO MONITOR THE LEVEL OF SATISFACTION EMPLOYEES REPORT IN THESE AREAS. USING SUCH BALANCED MEASUREMENT APPROACHES TO HOLDING LEADERS AND MANAGERS



ACCOUNTABLE FOR FOSTERING LEARNING AND DEVELOPMENT AND A REWARDING WORK ENVIRONMENT IS BECOMING AN ACCEPTED PRACTICE.

THE CRITICAL QUESTION IS HOW DO WE RECRUIT AND RETAIN THE TALENTED LEADERS WE NEED.

RESPONDENTS TO OPM'S RECENT SURVEY OF MEMBERS OF THE SENIOR EXECUTIVE SERVICE (SES) SAID THAT "CHALLENGING WORK" WAS THE MOST IMPORTANT FACTOR IN THEIR DECISION TO JOIN THE SES.

SALARY AND BENEFITS MAY NOT BE THE PRIMARY MOTIVATOR FOR GOVERNMENT EXECUTIVES. HOWEVER, WE MUST CAPITALIZE ON OUR EXECUTIVES' PUBLIC SERVICE COMMITMENT AND MAKE SURE WE REWARD THEIR TREMENDOUS CONTRIBUTIONS. THE CURRENT SES SYSTEM INCLUDES A NUMBER OF VALUABLE INCENTIVES, AND OPM IS WORKING WITH STAKEHOLDERS TO ENHANCE THEM.

FOR EXAMPLE, IN 1998, CONGRESS INCREASED THE CASH AWARDS GIVEN WITH THE PRESIDENTIAL RANKS OF DISTINGUISHED AND MERITORIOUS EXECUTIVE. PREVIOUSLY, THESE AWARDS WERE ACCOMPANIED BY LUMP-SUM PAYMENTS OF \$20,000 AND \$10,000, RESPECTIVELY. SINCE THE VALUE OF THESE AWARDS HAS ERODED OVER TIME, CONGRESS CHANGED THE FIXED AMOUNTS TO 35 AND 20

PERCENT OF BASE PAY. ANOTHER AMENDMENT GAVE AGENCIES MORE FLEXIBILITY TO RECOGNIZE EXCELLENCE THROUGH ANNUAL PERFORMANCE BONUSES. WE PROPOSE TO STRENGTHEN THIS LINK BETWEEN PAY AND PERFORMANCE BY ALLOWING SENIOR EXECUTIVES TO RECEIVE IMMEDIATELY THE FULL AMOUNT OF THEIR PERFORMANCE AWARDS AND OTHER INCENTIVES, INSTEAD OF HAVING TO DEFER SOME TO THE FOLLOWING YEAR.

ALSO, SENIOR EXECUTIVES CAN NOW ACCUMULATE UP TO 90 DAYS OF ANNUAL LEAVE. WE WANT TO FURTHER ENHANCE THE BENEFIT FOR SENIOR EXECUTIVES BY ALLOWING ALL OF THEM TO EARN 26 DAYS OF ANNUAL LEAVE EACH YEAR, REGARDLESS OF YEARS OF SERVICE.

FINALLY, 45 PERCENT OF THE EXECUTIVES RESPONDING TO OUR SES SURVEY SAID THAT MOBILITY IMPROVES JOB PERFORMANCE, AND MANY OF THEM INDICATED AN INTEREST IN EXPLORING VOLUNTARY JOB CHANGES. TO HELP KEEP THESE TALENTED EXECUTIVES IN GOVERNMENT, OPM WILL BUILD AN INTERNET FORUM WHICH LINKS THESE EXECUTIVES WITH OTHER JOB OPPORTUNITIES.

AS YOU CAN SEE, WE BELIEVE EXCEPTIONAL LEADERS ARE CRUCIAL TO THE OVERALL SUCCESS OF OUR EFFORTS TO IMPROVE GOVERNMENT. WE WILL CONTINUE TO WORK TO ENSURE THAT AGENCIES HAVE THE TOOLS THEY NEED TO SELECT AND CULTIVATE EXECUTIVES WHO ARE UP TO THE CHALLENGE.

**SUMMARY**

WE BELIEVE THAT IN THE FEDERAL GOVERNMENT GENERALLY WE HAVE SPECIAL CHALLENGES AND SPECIAL OPPORTUNITIES TO HELP KEEP EMPLOYEES ENGAGED AND WORKING TOWARD SHARED GOALS. THE FACT IS THAT MANY IF NOT MOST PEOPLE DO NOT ENTER PUBLIC SERVICE FOR THE MONEY. THEY WANT A CHANCE TO CONTRIBUTE AND MAKE THEIR COUNTRY A BETTER PLACE IN WHICH TO LIVE AND RAISE A FAMILY. OFTEN THE OBSTACLES THEY FACE ARE ENORMOUS, AND THE RESULTS OF THE POLICIES AND PROGRAMS THEY DEVELOPED TO CONQUER DISEASE OR CLEAN UP THE ENVIRONMENT MAY NOT BE APPARENT FOR YEARS. IN SUCH SITUATIONS, IT IS INCUMBENT UPON US, THE EMPLOYERS, TO RECOGNIZE OUR EMPLOYEES' CONTRIBUTIONS.

IT DOES NOT TAKE PILES OF MONEY OR STOCK OPTIONS TO LET PUBLIC EMPLOYEES KNOW THEY ARE VALUED AND MAKE A DIFFERENCE. WE DO NOT HAVE THE MONEY OR STOCK OPTIONS TO GIVE IN ANY EVENT, BUT WE DO HAVE A POWERFUL REWARD IN THE RECOGNITION WE CAN CONFER.

WHETHER WE GIVE AN IMPRESSIVE MEDAL TO ACKNOWLEDGE A CAREER OF DISTINGUISHED SERVICE OR A YELLOW POST-IT NOTE TO SAY THANKS FOR HELPING TO PHOTOCOPY A REPORT, IT IS WORTH DOING. WE MUST TAKE GREAT CARE TO INCORPORATE MULTIPLE FORMS OF EFFECTIVE RECOGNITION INTO OUR CULTURES AND OUR OVERALL STRATEGIC REWARDS SYSTEMS.

WE MUST APPROACH THESE ISSUES BROADLY AND FLEXIBLY. WE MUST  
EXAMINE OUR WORKPLACE ENVIRONMENTS AND CULTIVATE MANAGERIAL  
SUPPORT OF EMPLOYEE-SUPPORTED AWARDS PROGRAMS ALIGNED WITH  
AGENCY GOALS AND INITIATIVES.

WHEN WE DO THESE THINGS, I AM CONFIDENT WE CAN IMPLEMENT STRATEGIES  
THAT WILL FOSTER COMMITMENT AND PROMOTE EXCELLENCE.

THANK YOU FOR THIS OPPORTUNITY. I WOULD BE PLEASED TO ANSWER ANY  
QUESTIONS YOU MAY HAVE.

**INCENTIVES****Pay****Additional Step-Increases**

In addition to periodic step-increases (advancement to a higher rate within the same grade), which are awarded on the basis of length of service and an acceptable level of competence, additional step-increases may be granted in recognition of high quality performance above that normally found in the type of position concerned. This incentive, commonly known as a quality step-increase (QSI), is used by the head of the agency within available appropriations and under OPM regulations, which require an "outstanding" performance rating. (5 U.S.C. 5336)

**Special Salary Rates**

OPM may establish special salary rates to address situations in which the Government's recruitment or retention efforts are, or are likely to become, significantly handicapped, due to circumstances such as higher non-Federal pay, remote location, or undesirable working conditions. Special salary rates are rates of basic pay that are higher than the normal rates of basic pay for General Schedule employees. (5 U.S.C. 5305)

**Recruitment Bonuses**

An agency may pay a lump-sum recruitment bonus of up to 25 percent of the annual rate of basic pay of a difficult-to-fill position to an employee newly appointed to that position. The employee must sign a written agreement to complete a minimum period of service of 6 months with the agency. (5 U.S.C. 5753)

**Relocation Bonuses**

An agency may pay a lump-sum relocation bonus of up to 25 percent of the annual rate of basic pay of a difficult-to-fill position to an employee who must relocate to a different commuting area to accept the position. The employee must sign a written agreement to complete a period of service with the agency. (5 U.S.C. 5753)

**Retention Allowances**

An agency may pay a retention allowance of up to 25 percent of basic pay to an employee if the unusually high or unique qualifications of the employee or a special need of the agency for the employee's services makes it essential to retain the employee, and the agency determines that the employee would be likely to leave the Federal service without the allowance. Similarly, an agency may pay a retention allowance of up to 10 percent of basic pay (or up to 25 percent with OPM approval) to a group or category of employees. A retention allowance is paid at the same time as the employee's regular paycheck. (5 U.S.C. 5754)

**Higher Rate for New Appointments**

An agency may address the existing pay or unique qualifications of a candidate, or a special need of the Government for the candidate's services, by appointing an individual to a position at a rate above the minimum rate of the appropriate grade. (5 U.S.C. 5333)

**Awards****Cash Awards**

An agency may pay a cash award for performance, based on an employee's annual rating of record of fully successful or higher. Other cash awards may be given based on specific employee accomplishments, either as an individual or as a member of a group. More specifically, awards have long been given for suggestions or inventions. (5 U.S.C. chapter 45)

**Time-Off Awards**

Since 1990, agencies have been able to reward employee accomplishments by granting time off without charge to leave or loss of pay. These awards are used for the same types of accomplishments as cash awards. (5 U.S.C. 4502(e))

**Honorary Awards**

Often given by agency heads in formal public ceremonies, honorary awards are certificates, plaques, medals, or other non-monetary forms of recognition that represent high levels of respect and distinction. They are frequently used to reward exceptional service and contributions over an extended period of time. As an extension of this authority, informal recognition awards such as pins, mugs, or other off-the-shelf items are used to recognize accomplishments but in a less formal manner. (5 U.S.C. chapter 45)

**Senior Executive Service (SES) Awards**

To encourage excellence by career appointees in the Senior Executive Service, lump-sum performance awards may be paid to career senior executives who are rated at least fully successful. An SES performance award may not be less than 5 percent nor more than 20 percent of the recipient's rate of basic pay. (5 U.S.C. 5384)

**SES Presidential Rank Awards**

The President may award to a limited number of career appointees the rank of Meritorious Executive, for sustained accomplishment, or the rank of Distinguished Executive, for sustained extraordinary accomplishment. The rank of Meritorious Executive includes a lump-sum payment

of 20 percent of the recipient's basic pay, while the rank of Distinguished Executive includes a lump-sum payment of 35 percent of the recipient's basic pay. (5 U.S.C. 4507)

## **Leave**

### **Family and Medical Leave**

Most Federal employees are entitled to up to 12 workweeks of unpaid leave during any 12-month period for birth, adoption, or foster care of a son or daughter; for care of a spouse, son or daughter, or parent who has a serious health condition; or for the employee's serious health condition. (5 U.S.C. 6381-6387)

### **Sick Leave for Family Care or Bereavement**

Most Federal employees may use up to 13 days (104 hours) of sick leave each leave year to care for a family member who is incapacitated by illness, injury, pregnancy, or childbirth, or is receiving certain examinations or treatments, or to make arrangements for or attend the funeral of a family member. (5 CFR 630.401)

### **Leave Bank/Leave Transfer Programs**

An employee who becomes a member of a leave bank by donating leave to it each year may, after exhausting his or her available paid leave, receive leave from the bank to address a personal or family medical emergency. (5 U.S.C. 6361-6373)

In addition, an employee who is experiencing a personal or family medical emergency and has exhausted his or her available paid leave may receive annual leave directly from another employee through a leave transfer program. (5 U.S.C. 6331-6340)

### **Bone Marrow/Organ Donor Leave**

An employee may use up to 7 days of paid leave each calendar year to serve as a bone-marrow donor. An employee also may use up to 30 days of paid leave each calendar year to serve as an organ donor. Leave for these purposes is in addition to annual and sick leave. (5 U.S.C. 6327)

## **Other Incentives**

### **Alternative Work Schedules**

There are two categories of alternative work schedules: flexible work schedules and compressed work schedules. Flexible work schedules consist of core hours (during which all employees must

be at work) and flexible hours (during which employees may choose their times of arrival and departure). Compressed work schedules are fixed work schedules which enable employees to complete the basic 80-hour biweekly work requirement in less than ten workdays. (5 U.S.C. 6120-6133)

**Repayment of Student Loans**

In order to recruit or retain General Schedule employees, an agency may offer, in exchange for an agreement to work for the agency for not less than 3 years, to repay certain student loans. No employee may receive more than \$6,000 per year or a total of \$40,000. (5 U.S.C. 5379)





**TESTIMONY**

**OF**

**COLLEEN M. KELLEY**

**NATIONAL PRESIDENT  
NATIONAL TREASURY EMPLOYEES UNION**

**ON**

**THE EFFECTIVENESS OF FEDERAL EMPLOYEE INCENTIVES**

**MAY 2, 2000**

**SUBCOMMITTEE ON GOVERNMENT MANAGEMENT**

**SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS**

**10:00 am**

**342 DIRKSEN SENATE OFFICE BUILDING**

Chairman Voinovich, Ranking Member Durbin, Members of the Subcommittee, my name is Colleen Kelley and I am the President of the National Treasury Employees Union. As you know, NTEU represents more than 155,000 federal employees across the federal government.

I want to thank you for holding this hearing today to examine the federal government's incentive programs and their effectiveness. I share your belief that federal employees, just like their private sector counterparts, must believe that substantial rewards exist for excellence and productivity. Without appropriate compensation and incentives, the federal government will find it increasingly difficult to remain competitive and attract quality employees in the future.

The most critical compensation elements of federal employment - pay, retirement and health benefits - have each faced setbacks in recent years that have limited their competitiveness with the private sector. As you know, the Federal Employees Pay Comparability Act (FEPCA), has not been followed, leaving pay lagging far behind private sector wages for similar work. Moreover, federal employees have been forced,

under the guise of deficit reduction, to pay more toward their retirement with no corresponding increase in retirement benefits. Finally, premiums for the Federal Employees Health Benefits Program (FEHBP) have increased almost 30% over the past three years and there is no relief in sight.

NTEU believes it is critical that Congress address these issues realistically. While a full range of incentive options is increasingly important in attracting and keeping employees, I think most individuals considering a career in public service - as well as those currently serving - would agree that adequate salaries, stable retirement benefits and affordable health insurance coverage are the key components that must be addressed if the federal government is going to remain a competitive employer.

As you know, acquiring and retaining employees with the best skills is a challenge for all employers. It is particularly so for the federal government. Less than half of the 1997 graduating class at Harvard's John F. Kennedy School of Government accepted jobs with the federal government. In addition, a recent survey by the George Washington University's public administration department confirms this movement away from public service. Employment with the federal government was the preference of only 27 percent of the school's public administration graduates.

The situation is not new. The General Accounting Office (GAO) reported in 1994 ("How Government Jobs Are Viewed On Some College Campuses") that little interest existed in pursuing a career with the federal government. That report found that low starting salaries and the poor image of government work helped fuel these decisions. Prior to this study, GAO reported in 1990 that low federal pay was the most frequently stated reason for employees to leave federal service or decline a federal job offer in the first place.

According to many analysts, for most prospective employees, the most critical element in deciding whether or not to accept a job offer is salary. Under the 1990 FEPCA law, federal employees were to receive an annual nationwide pay adjustment plus an annual locality-based comparability adjustment designed to begin to close the gap between federal and private sector salaries, measured at that time at approximately 30%. The law has never been implemented as intended and a substantial pay gap remains. Frankly, Mr. Chairman, a decision to fully implement FEPCA would do more to address recruitment and retention in the federal government than all remaining incentive programs combined.

The same law that created this new federal pay authority also authorized a number of other programs geared toward helping agencies recruit and retain employees. One provision permits federal agencies to offer retention allowances of up to 25

percent. Another gave agencies the authority to offer one-time bonuses of up to 25% of basic pay to recruit employees and/or relocate employees to less desirable locations.

In December of 1999, the Office of Personnel Management reported that overall, only 0.14 percent of all Executive Branch employees received recruitment, retention or relocation incentives (3Rs) in Fiscal Year 1998. Less than a quarter of 1%. Recruitment bonuses were given 0.3 percent of the time. Relocation bonuses were given to 1.0 percent of employees and 0.09 percent of employees received retention allowances. Women and minorities received fewer 3R incentives in comparison to their presence in the federal workforce, doing little to help workforce diversity efforts. (See: The Three Rs - Lessons Learned from Recruitment, Retention, and Relocation Incentives)

Furthermore, when these incentives were awarded, they were most often paid at a rate of 10% of basic pay, or less. The law authorizes recruitment, retention and relocation incentives to be paid at a rate up to 25% of basic pay. When OPM interviewed a sample of small, medium and large agency users of 3R incentives to determine if their use was meeting agency needs, a majority stated that greater use of these flexibilities was going to be necessary if the federal government intends to continue to recruit and retain highly skilled and qualified employees. When asked what the most common impediments were to greater use of the

3Rs, agencies cited budgetary constraints and prolonged hiring freezes.

The same is true of performance awards, incentive awards and even bilingual awards, which NTEU negotiates with the agencies where we represent employees. Agencies simply do not have the resources to adequately fund these important incentives. They are constantly forced to rob Peter to pay Paul.

Whether fully implementing FEPCA as the best tool to insure that the federal government has continued access to the best employees, or expanding the use of recruitment, retention and other incentives, the solution is the same. Until Congress provides adequate discretionary funding to federal agencies, these problems will remain. With the deficit behind us and surpluses predicted for the immediate future, we have an opportunity to provide adequate resources to federal agencies for these purposes. Absent additional resources, these problems will continue.

However, as I have stated, incentives alone will not make the federal government a competitive employer. Realistic pay rates and competitive retirement and health benefits combined with popular private sector compensation practices will be needed. Today's strong national economic growth combined with the highly competitive job market makes it critical that Congress

address these challenges. The fact is, the federal government faces stiff hiring competition.

While the federal government struggles under artificial budget constraints to adequately fund its basic pay and benefits package, private industry has recognized the impact our full employment economy has had on attracting the best employees. They have forged ahead with meaningful incentives - most of which are not available in the federal government. They include stock options and profit sharing, investments in employee education through tuition reimbursement programs, topnotch training programs, concierge services that allow time spent on errands and chores to be devoted instead to family and work, fitness centers, health club reimbursements and a virtual laundry list of benefits designed to promote a sense of community both inside and outside the office.

In the past few years, family friendly programs such as alternative work schedules, telecommuting options, flexiplace, leave banks, child care facilities and opportunities to use personal sick leave to care for ill family members have all provided incentives for employees to join or remain in the federal workforce. While we continue to believe that salary remains the most effective tool in attracting quality employees, these family friendly incentives have proven effective in both the public and private sectors. The benefits of these programs

far outweigh their expense, but here too, funding remains an issue.

One of the most prominent benefits routinely made available to private sector employees is on-site subsidized child care facilities. Private industry has found that making affordable child care available to its employees helps make the inevitable choice between family and work a little less stressful. A prominent 1994 study found that for every dollar a company spent on flexible work and family benefits, there was a return of \$2 to \$6 dollars resulting from reduced absenteeism, increased morale and motivation and higher rates of employee retention.

For working families with children between the ages of three and five, child care is their second or third largest household expense. It is not uncommon for child care expenses to reach \$1000 per month. Since 1989, the Defense Department has used its appropriated funds to subsidize child care for the uniformed military. Last year's Defense Authorization Bill (P.L.106-65) gave the Secretary of Defense the authority to subsidize child care costs for civilian and contract DoD employees as well.

NTEU was also successful last year in attaching language to the Fiscal Year 2000 Treasury Appropriations bill giving all federal agencies the discretion to use their appropriated funds to subsidize child care expenses for their lower paid employees.



Unfortunately, this language will expire September 30, providing little time to determine whether this provision has achieved its intended effect - helping to make safe, quality child care available to lower paid federal employees while positively impacting morale and worker productivity. Here again, however, due to budgetary constraints, agencies have not been provided with any funding for this important purpose, rather they will be permitted to use existing funds where available. NTEU is currently negotiating for child care subsidies for the lower paid workers we represent. We are also actively seeking an extension of language permitting these subsidies and would certainly appreciate the Chairman's assistance in this effort. Like so many private companies have found, we believe making child care subsidies available will have a profoundly positive effect on the federal government's ability to attract and retain key employees.

I also want to bring to the Chairman's attention what NTEU believes has become a major disincentive for employees we represent at the Internal Revenue Service. As part of the IRS Restructuring and Reform Act of 1998 (RRA), Congress enacted Section 1203 which lists ten infractions for which IRS employees face mandatory dismissal. IRS employees work in fear of what have come to be known as the "10 Deadly Sins," and this is seriously undermining IRS' efforts to carry out its mission.

The broad scope and vague nature of the 10 Deadly Sins have

created anxiety and confusion in the workplace. These infractions, which range from IRS employees not paying their taxes on time to improperly placing a lien on a delinquent taxpayer have **always** subjected employees to discipline, including dismissal, and rightly so. However, the RRA's requirement for mandatory dismissal of employees is having a chilling effect on collections and morale at the IRS. No other government employee in the executive, judicial or legislative branch - and in fact no other American taxpayer - must be fired solely on the basis of paying their taxes one day late.

NTEU vigorously opposed Section 1203 and continues to believe that this section of the Act should be repealed. IRS employees have justifiably expressed fears that they could inadvertently break one of the rules and face immediate termination. In order to relieve the anxiety these employees feel, NTEU believes Congress needs to take another look at this section of the law. We would be grateful for the Chairman's assistance in this matter as well.

In conclusion, Mr. Chairman, I believe from our prior conversations that we are in agreement that the most valuable resource the federal government has is its employees. There is a direct link between employee job satisfaction and whether or not the federal government's customers are satisfied. Research over the years has shown that the quality of service provided is a

reflection of the employment situation created by the organization. This is no less true for the federal government than for private sector business. I believe you are doing a great service by holding hearings such as this today to publicize these issues and work toward solutions. NTEU hopes to work toward solutions with you. Thank you very much. I would be happy to answer any questions.



United States General Accounting Office

## Testimony

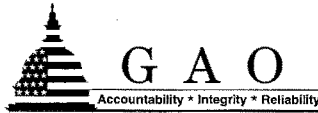
Before the Subcommittee on Oversight of Government  
Management, Restructuring, and the District of  
Columbia, Committee on Governmental Affairs  
U.S. Senate

For Release on Delivery  
Expected at  
10:00 a.m. EDT  
on Tuesday  
May 2, 2000

## HUMAN CAPITAL

### Using Incentives to Motivate and Reward High Performance

Statement of Michael Brostek, Associate Director  
Federal Management and Workforce Issues  
General Government Division



Statement

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## Human Capital: Using Incentives To Motivate And Reward High Performance

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the role of incentive programs in motivating and rewarding federal employees to achieve high performance that supports agency missions and goals. An agency's workforce defines its character and its capacity for performance. Thus, if federal agencies are to make major improvements in performance-based management as envisioned by the Government Performance and Results Act (GPRA), they must strategically manage their most important asset—their human capital—to achieve results.

Incentive programs can be an important part of performance management systems because they can serve to align employee performance expectations with agency missions and goals as well as reinforce personal accountability for high performance. Effective incentive programs that motivate all employees, and reward those employees, teams, and organizational units whose performance exceeds expectations, can help federal agencies maximize the results they achieve.

My statement makes three main points:

- First, federal agencies have broad statutory and regulatory authority to design and implement a variety of incentive programs, including monetary incentives (such as performance and other cash awards) and nonmonetary incentives (such as plaques, trophies, and personal expressions of gratitude and support from superiors) to directly support their unique missions, goals, and organizational cultures. No one incentive program is optimal for all situations.
- Second, the use of monetary incentive programs has varied over time and across agencies. Over the past 5 years, agencies have decreased their use of performance awards and increased their use of other monetary incentives. The proportion of employees who received monetary performance awards varied by individual agency, ranging from less than 1 percent to as much as 75 percent of an agency's workforce. Little is known about the use of nonmonetary incentives, because they are more difficult to measure and are generally not adequately documented across the government. The variation in monetary incentive awards may be attributed to such factors as differing budgetary limitations and leadership support for these programs.
- Finally, some agencies regularly monitor and evaluate the effectiveness of their incentive programs; however, many others have reported that they

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Statement  
Human Capital: Using Incentives To Motivate And Reward High Performance

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did not know whether their incentive programs were effective in motivating their employees to exceed expectations in support of missions and goals. In doing such an assessment, agencies may wish to consider the extent to which their programs incorporate the key elements of incentive programs used by high-performing organizations. These elements include leadership support; clearly defined and transparent criteria; use of multiple awards for both individuals and teams; targeting only high-performing teams and employees; publicizing awards; and regularly monitoring, evaluating, and if needed, updating incentive programs on a periodic basis.

My statement today is based on our ongoing and previous work reviewing the human capital management of federal agencies and high-performing private sector organizations.<sup>1</sup> We also reviewed information from the Office of Personnel Management's (OPM) Central Personnel Data File (CPDF) and recent reports regarding federal agencies' use of incentives as well as the current human capital literature.

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**Federal Agencies Have  
Broad Authority to  
Design Incentive  
Programs**

Federal agencies have broad statutory and regulatory authority to design and implement incentive programs that make use of a range of incentives—both monetary and nonmonetary. No one incentive program is right for all situations, because no one program will motivate all employees under all circumstances. Agencies' authority allows them to develop multiple incentive programs that support their missions and goals; reflect their unique organizational cultures; appeal to employees' varying motivations; and provide the flexibility to reward individuals, teams, and other subgroups of employees.

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**Monetary Incentives**

Federal agencies have broad authority to implement monetary incentives that motivate and reward employees for high performance.<sup>2</sup> Specifically, federal executive agencies can offer performance and other types of monetary incentives, as described below:

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<sup>1</sup>For examples of our recent examinations of human capital management in high-performing organizations, see *Human Capital: Managing Human Capital in the 21<sup>st</sup> Century* (GAO/T-GGD-00-77, Mar. 9, 2000), *Human Capital: Key Principles From Nine Private Sector Organizations* (GAO/GGD-00-28, Jan. 31, 2000), *Human Capital: A Self-Assessment Checklist for Agency Leaders—Discussion Draft* (GAO/GGD-99-179, Sept. 1998), and *Performance Management: Aligning Employee Performance With Agency Goals at Six Results Act Pilots* (GAO/GGD-98-162, Sept. 4, 1998).

<sup>2</sup>Agencies are also authorized to implement incentives that (1) attract and reward job candidates with unique skills who accept positions with the federal government and (2) retain and reward highly-skilled employees who could seek employment elsewhere. These incentives include recruitment incentives, relocation incentives, and retention incentives.

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- **Performance awards** are monetary incentives that reward employees for performance exceeding expectations, as defined by their formal performance ratings of record during an appraisal period.

Other monetary incentives include the following:

- **Special act or service awards** are one-time, lump-sum monetary awards for employees whose specific accomplishments exceed performance expectations during the course of a year. Special act or service awards are limited in amount and can be authorized by first-line supervisors.
- **Quality step increases** are monetary awards that provide employees with faster than normal progression through the stepped rates of the general schedule and represent a permanent increase in basic pay.
- **Time-off awards** are awards granting employees leave without charging their annual leave or requiring that they forego pay.<sup>3</sup>
- **Gainsharing** is an incentive system that creates conditions under which management and employees benefit by working together to achieve improved productivity. Under a gainsharing system, an agency measures gains in productivity and distributes any associated savings to both employees and the organization.

Agencies have frequently used monetary incentives to motivate and reward employees' high performance, and federal employees have generally stated that they believe these incentives do motivate employees. However, some agency officials and employees have told us that there were some disadvantages to these incentives. For example, officials and employees alike have stated that monetary rewards can be an ineffective motivator because of the relatively low dollar amounts involved and the belief that these awards were not directly linked to performance. In particular, officials and employees have expressed concerns about the consistency and fairness of those monetary awards linked to ineffective performance appraisal systems. Monetary incentives may also foster internal competition among employees to the detriment of teamwork and the agency's ability to achieve its mission and goals. Moreover, monetary incentives that are consistently awarded over time may come to be viewed as entitlements for expected performance rather than rewards for

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<sup>3</sup>Although time-off awards are not cash awards for employees and cannot be converted to cash, we have characterized these awards as monetary incentives because they can represent a significant dollar cost to agencies and because they allow employees to receive their normal pay without being charged annual leave for time off.

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exceptional performance. Thus, care must be taken in designing and implementing monetary award programs to ensure that they are effective and to limit any unintended consequences.

#### Nonmonetary Incentives

Federal agencies also have the authority to implement nonmonetary incentives to motivate and reward employees. For example, agencies can offer employees medals, certificates, plaques, trophies, and other tangible incentives that have an award or honor connotation. Agencies can also provide intangible nonmonetary awards. For example, employees may have an incentive to perform at levels exceeding expectations if they believe that such performance will be rewarded when agency leaders make decisions regarding organizational priorities; the allocation of resources, including training opportunities; and the assignment of employees to meaningful, challenging, visible, or prestigious work. Nonmonetary incentives should not be overlooked or undervalued, because some agency officials and employees have stated that these incentives provide more motivation for high performance than do monetary incentives.

#### Federal Agencies' Use of Incentives Varies

Based upon a review of available data from an OPM database, we found that agencies' use of monetary incentives has varied over time and across agencies over the last 5 years.<sup>4</sup> Governmentwide, agencies decreased their use of performance awards and increased their use of other monetary awards from fiscal year 1995 to 1999. Individual agencies provided different average award amounts to different proportions of their workforce. Little is known about the use of nonmonetary incentives, because these awards are not easily measured and are generally not documented.

Agency officials have stated that the variation may be attributed to agencies' broad authority and flexibility to design incentive programs, as well as to the difficulty some agencies may experience in designing incentive programs that support their unique missions and goals. Agency officials who stated that they had difficulty in designing and implementing incentive programs said that several factors inhibited their efforts, including budget limitations and leaders' differing support for incentive programs.

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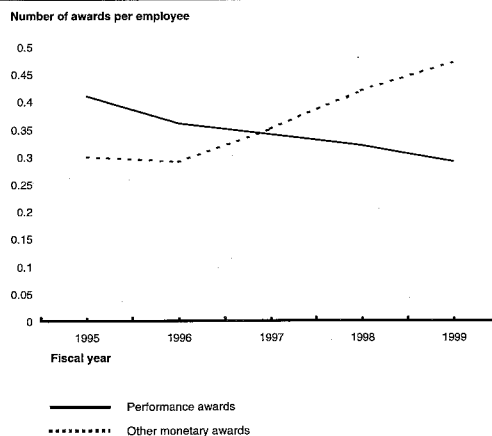
<sup>4</sup> We used the incentives information available from OPM's CPDF for the 24 agencies covered by the Chief Financial Officers (CFO) Act—these agencies employ approximately 98 percent of the federal government's total career civilian workforce, excluding the United States Postal Service.



### Governmentwide Use of Monetary Incentives Varied Over Time

Federal agencies' use of monetary incentives has varied over the last 5 years. From 1995 to 1999, the 24 CFO agencies included in our review decreased their use of performance awards (including the number of awards given as well as the average award amount per employee), while they increased their use of other monetary awards. As shown in figure 1, agencies rewarded approximately 4 out of 10 employees on average with performance awards in fiscal year 1995 compared with approximately 3 out of 10 employees in fiscal year 1999. On the other hand, agencies rewarded an average of approximately 3 out of 10 employees with other monetary awards in fiscal year 1995 compared with nearly 5 out of 10 employees in fiscal year 1999.

**Figure 1: Average Number of Monetary Incentive Awards per Employee for the 24 CFO Agencies, Fiscal Years 1995-1999**



Note 1: We did not include SES awards in our calculations.

Note 2: We calculated the "average number of awards per employee" by dividing the total number of awards by the total number of employees eligible to receive the awards (not the number of employees who actually received an award) to facilitate meaningful trend analyses that would not be affected by the changing number of employees in the workforce over time.

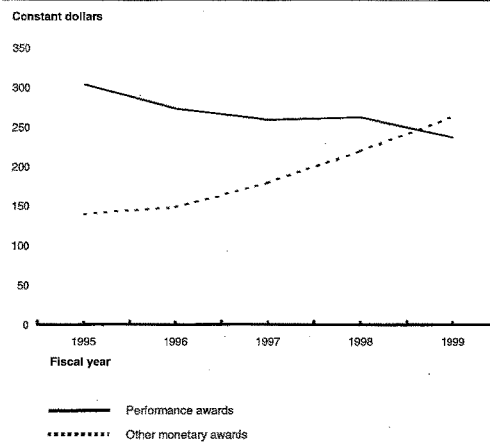
Note 3: "Other monetary awards" include gainsharing, suggestion, invention, special act, and quality step increase awards. We did not include time-off awards in the calculations because they were measured in hours rather than dollars.

Source: GAO calculations based on OPM data.

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Similarly, as shown in figure 2, agencies' spending on performance awards decreased from an average rate of about \$300 per employee in fiscal year 1995 to an average rate of about \$240 per employee in fiscal year 1999.<sup>5</sup> Over the same period, agencies' spending on other monetary incentives increased from an average rate of about \$140 per employee to an average rate of about \$260 per employee.

**Figure 2: Average Dollar Amount of Monetary Incentive Awards per Employee for the 24 CFO Agencies, Fiscal Years 1995-1999**



— Performance awards  
..... Other monetary awards

Note 1: We did not include SES awards in our calculations.

Note 2: We calculated the "average award amount per employee" by dividing the total dollar amount of awards by the total number of employees eligible to receive the awards (not the number of employees who actually received an award) to facilitate meaningful trend analyses that would not be affected by the changing number of employees in the workforce over time.

Note 3: "Other monetary awards" include gainsharing, suggestion, invention, special act, and quality step increase awards. We did not include time-off awards in the calculations because they were measured in hours rather than dollars.

Note 4: Dollar amounts were calculated using fiscal year 1999 constant dollars.

Source: GAO calculations based on OPM data.

<sup>5</sup> We calculated the "average award amount per employee" by dividing the total dollar amount of awards by the total number of employees eligible to receive the awards (not the number of employees who actually received an award) to facilitate meaningful trend analyses that would not be affected by the changing number of employees in the workforce over time.

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	<p>The actual dollar amounts of both performance and other monetary awards increased over the 5-year period, and although their use was declining, performance awards were generally larger in dollar amount than other monetary awards. That is, on average, agencies provided larger performance awards to fewer employees in 1999 compared with 1995. The average performance award increased from about \$730 in fiscal year 1995 to about \$830 in fiscal year 1999, while the average for other monetary awards increased from about \$470 in fiscal year 1995 to about \$550 in fiscal year 1999.<sup>6</sup></p>
Agencies' Use of Monetary Incentives Varied	<p>The individual CFO agencies differed in their use of the various monetary incentives in any given year. For example, in fiscal year 1999, the agencies' use of performance awards ranged from an average of fewer than 1 out of 10 employees receiving an award at one agency, to as many as 3 out of 4 employees receiving an award at another agency.<sup>7</sup> Similarly, an average of 15 percent of employees received other monetary awards at one agency, while individual employees of another agency each received three of these awards on average.</p> <p>The average award amounts also varied across the 24 agencies. Specifically, in fiscal year 1999, about 25 percent of the agencies provided performance awards that averaged less than \$750, about 50 percent provided performance awards that averaged between \$750 and less than \$1,250, and the remaining 25 percent provided performance awards that averaged \$1,250 or more. As might be expected, the average amounts of other monetary awards were somewhat lower than for performance awards. About 63 percent of the agencies provided other monetary awards that averaged less than \$750, and the remaining 37 percent provided other monetary awards that averaged between \$750 and less than \$1,250. Figure 3 shows how the average incentive award amounts varied for the 24 CFO agencies.</p>

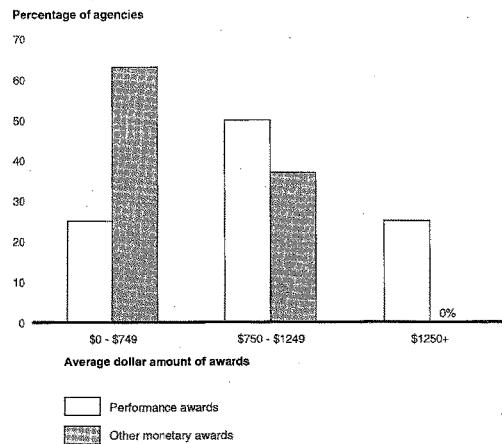
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<sup>6</sup> We calculated all dollar amounts using fiscal year 1999 constant dollars.

<sup>7</sup> We do not specify the names of these agencies because we obtained the data from an OPM database, and we did not verify or discuss this data with the individual agencies.

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Figure 3: Average Dollar Amounts of Monetary Incentive Awards for the 24 CFO Agencies, Fiscal Year 1999



Note 1: We did not include SES awards in our calculations.

Note 2: We calculated the average award amount by dividing the total dollar amount of awards by the total number of employees who actually received an award.

Note 3: "Other monetary awards" include gainsharing, suggestion, invention, special act, and quality step increase awards. We did not include time-off awards in the calculations because they were measured in hours rather than dollars.

Source: GAO calculations based on OPM data.

Agencies have stated that there may be several factors that account for their varying use of incentives. Specifically, agencies funded their incentive programs out of their discretionary operating budgets, and some agencies' budgets may have been more constrained than others over the last decade. In addition, agencies' leaders may have differed in their support for incentives versus other components of a performance management system for motivating employee high performance.

## Improving Agencies' Incentive Programs

Agencies that fail to evaluate their incentive programs have no basis for determining whether their programs actually motivate and reward employee high performance. While some agencies have stated that they

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regularly evaluated their incentive programs, many others have said that they did not. Thus, agencies may be offering their employees "incentives" that could be discouraging rather than encouraging high performance. In fact, over 40 percent of employees who responded to a recent National Partnership for Reinventing Government (NPR) survey indicated that they were dissatisfied with federal incentive programs and felt that agencies' use of incentives (1) did not sufficiently reward high performance in support of missions and goals, (2) were not clearly based on merit, and (3) failed to recognize creativity and innovation.<sup>5</sup>

For those federal agencies interested in improving the effectiveness of their incentive programs, a self-assessment of their programs offers them the opportunity to determine the degree to which their current use of incentives motivates and rewards employee high performance. For example, an agency might use our human capital checklist, which lists sample indicators that agencies can use as a starting point to develop a fact-based understanding of the effectiveness of their incentives.<sup>6</sup> Completing a self-assessment on a periodic basis would better equip agency leaders to design and implement more effective incentive programs that they could then monitor, evaluate, and continue to improve upon in the future.

While no one incentive program will motivate all employees under all circumstances, agencies may wish to consider determining whether their programs contain elements that are common to incentive programs used by high-performing organizations. High-performing public and private sector organizations that used incentive programs to motivate and reward their workforces have said that they consistently build certain key elements into the design, implementation, and evaluation of their programs. Based upon a review of our previous human capital and incentives work, these key elements include the following:

- Leaders support using incentives to manage performance.
- Programs have clearly defined, transparent criteria that are explicitly linked to organizational mission and goals.
- Organizations use multiple, meaningful awards to recognize individuals as well as teams and organizational units.

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<sup>5</sup> The results of the *Working for the Government: What Federal Employees Think—1999 Employee Survey* were released on March 31, 2000. NPR reported that approximately 40 percent of the 32,265 full-time federal employees surveyed responded to the instrument.

<sup>6</sup> GAO/GGD-99-179.

	<p>Statement</p> <p>Human Capital: Using Incentives To Motivate And Reward High Performance</p>
	<ul style="list-style-type: none"> <li>• Organizations target only high-performing teams and employees for awards.</li> <li>• Organizations publicize incentive awards to the extent possible.</li> <li>• Organizations regularly monitor, evaluate, and update their programs as needed.</li> </ul>
Secure Leadership Support	<p>High-performing organizations told us that executive support for incentive programs was vital to ensure program funding, consistency, and overall effectiveness. Because incentive programs may include performance awards and other monetary awards that require the use of appropriated funds, executives must continuously and visibly support the program to ensure that sufficient resources—both time and money—are allocated to the design, implementation, and evaluation of these programs. Moreover, managers may have very different views about the use of these programs, and executive support for incentives can minimize disparities that employees working for different managers within the same organization might otherwise experience. Top leadership support of incentives for high performance also sends a clear message to employees that efforts that exceed expectations will be recognized and rewarded, which in turn can improve an organization's overall effectiveness.</p>
Use Clearly Defined, Transparent Criteria	<p>High-performing organizations used clearly defined, transparent criteria that were explicitly linked to the organizations' missions and goals. Moreover, the organizations told us that expectations and measures should reflect only those dimensions of performance that are within the control of employees. The organizations stated that such criteria were essential to establishing and maintaining employee confidence that incentive rewards would go only to those employees whose performance clearly exceeded expectations and supported organizational missions and goals.</p>
Include Multiple Incentives for Individuals and Teams	<p>The incentive programs of high-performing organizations included multiple incentives—both monetary and nonmonetary—to enhance their ability to motivate as many employees as possible. Clearly, any incentive will motivate some employees, teams, or organizational units more than others. Some employees prefer monetary incentives, whereas other employees find nonmonetary incentives more meaningful. To avoid the risk of motivating some employees and not others to achieve high performance, the organizations indicated that they offered multiple and varied incentives to increase the probability of motivating all their employees according to their individual preferences. Moreover, offering a variety of incentives enhanced the organizations' flexibility to tailor awards for specific circumstances. In particular, organizations that truly promoted teamwork</p>

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	needed mechanisms for providing not only individual, but also team-based incentives.
Target Only High-Performing Teams and Employees	High-performing organizations' incentive programs differentiated between high-performing and other teams and employees in order to reward only those employees whose performance clearly exceeded expectations, met any established program criteria, and directly supported organizational mission and goals. These organizations stated that incentive programs that did not target high-performers for rewards would fail to effectively motivate employees and could even provide a disincentive for high performance. That is, employees who were rewarded for less than high performance might come to view such rewards as entitlements for meeting expectations rather than incentives to exceed expectations.
Publicize Incentives	High-performing organizations indicated that leaders or managers must publicize employee rewards and clearly communicate how the performance being rewarded exceeded defined expectations. The organizations indicated that employee confidence and belief in the fairness of incentive programs improved when they understood why certain employees were rewarded. Moreover, public recognition can serve as an additional motivation for employees to strive for high performance.
Monitor, Evaluate, and Update Periodically	Finally, high-performing organizations stated that regular monitoring and evaluation, as well as periodic updates, of incentive programs helped ensure that employees were effectively motivated to achieve high performance and support the organization's missions and goals. Sound management practices dictate that any human capital policy or practice must include regular monitoring and evaluation. The organizations indicated that program evaluations ensured that their incentive programs were administered efficiently and fairly, rewarded only high-performing employees, and continued to motivate employees. The organizations stated that program evaluations would indicate when certain incentives or rewards no longer served to motivate employees and needed to be updated to improve the effectiveness of the incentive program. The organizations further said that including employee input as a part of the evaluation process improved employee confidence in the incentive programs and therefore made these programs more effective.
Summary	In summary, Mr. Chairman, the federal government's human capital—its greatest asset—defines federal agencies' character and capacity for performance. If federal agencies hope to maximize their performance, ensure accountability, and achieve their strategic goals and objectives, they must, among other things, make effective use of incentives—whether

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monetary or nonmonetary---to motivate and reward their workforce in support of their results-based missions. Agencies that have yet to develop an effective incentive program, or that have reported implementation barriers to doing so in the past, might consider assessing their current use of incentives to determine whether their programs are likely to motivate employee high performance. Once agencies have a fact-based understanding of the incentives they already use, they will be better equipped to update their existing programs or design new ones, if needed, to support their missions and goals more effectively.

At GAO, we hope to encourage and facilitate the adoption throughout government of a greater human capital focus, as well as other performance management principles, and to "lead by example." Right now, we are making our own human capital a top priority. Among other things, we are assessing our human capital systems from top to bottom for their alignment with our organizational mission, strategic goals, and core values. As a part of that assessment, we will be looking at our own use of incentives to determine whether they are aligned with our organizational mission and goals and are consistent with the key elements we identified from our review of high-performing organizations.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or other Members of the Subcommittee may have at this time.

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## GAO Contacts and Acknowledgements

For further information regarding this testimony, please contact Michael Brostek, Associate Director, Federal Management and Workforce Issues, at (202) 512-8673. Individuals making key contributions to this testimony included Jennifer Cruise, Thomas Fox, Rebecca Shea, and Gregory Wilmoth.



National Aeronautics and  
Space Administration  
**Headquarters**  
Washington, DC 20546-0001



Reply to Attn of:

Office of Inspector General

MAY 16 2000

The Honorable George V. Voinovich  
Chairman  
Senate Subcommittee on Oversight of Government  
Management, Restructuring and the District of Columbia  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

Thank you again for the opportunity to testify about incentives to recruit and retain a skilled federal workforce. Per your request, I have identified several possible incentives that would, based on our experiences, improve the ability of the NASA Office of Inspector General (OIG) and other federal organizations to recruit and retain topnotch employees. As I stressed to your subcommittee, federal managers need the flexibility to structure a variety of incentives to compete for employees with the private sector. Some of the incentives we suggest would require congressional action while others would require regulatory changes under the auspices of the U.S. Office of Personnel Management (OPM). We strongly suggest that you examine the benefits of certain changes that could be made to annual leave accrual rates, pay banding, thrift savings, incentives for high-cost labor markets, hiring authority, discretionary budgets and student placement and career development programs.

**Enhance Annual Leave Accrual Rates and Maximum Annual Leave Carryover**

The NASA OIG recently hired two employees who had no previous federal employment. Both employees are mid-career professionals. One is an investigator with a valuable breadth of law enforcement experience and the other is an aerospace technologist with superior academic qualifications (3 academic degrees from the Massachusetts Institute of Technology) and outstanding technical evaluation experience as an analyst with the National Research Council. We were fortunate to hire both individuals. Both employees had to forego the seniority established in their careers and begin at the bottom of the federal annual leave earning rate. Although outstanding employees with long-established careers, both individuals were placed in the annual leave-earning rate of 4 hours per two-

week pay period.<sup>1</sup> In other words, we asked these individuals - and must ask other mid-career professionals - to accept a benefit typically offered to the most junior employees. The flexibility to offer higher annual leave rates to top performing candidates or for difficult-to-fill positions would greatly enhance our recruitment capability.

### **Institute Pay Banding**

Pay for the majority of Federal employees is linked to the well-known General Schedule (GS) with its structured set of grades and steps. Although certain personnel rules exist which provide some relief from the conventional application of the GS system,<sup>2</sup> the system is generally highly structured and inflexible. Pay banding, which consolidates GS grades into broader pay bands, would provide increased flexibility for starting salaries, and links pay with employee performance. The Navy's demonstration project at the China Lake and associated facilities was the first and remains the best known of the pay banding demonstration projects under Title VI of the Civil Service Reform Act.<sup>3</sup>

Since the China Lake project, a number of demonstration projects involving pay banding have been initiated including activities by the National Institute of Standards and Technology, the Department of Agriculture's Forest Service and Agricultural Research Service, and various U.S. Air Force laboratories. Wider and more flexible applications of pay banding will require legislative authority, but will improve federal managers' capabilities to attract and retain top candidates in particularly competitive fields (e.g., information technology, engineering, scientific, and other high technology areas).

<sup>1</sup> Federal employees earn annual leave based on years of federal service. Employees with less than 3 years of service earn 4 hours for each pay period (104 hours annually). Employees with more than 3 years but less than 15 years of service earn 6 hours for each pay period, except 10 hours in the last pay period of the pay year (160 hours annually). Employees with 15 or more years of service earn 8 hours each pay period (208 hours annually). These rates are established by law in 5 U.S.C., chapter 63, subchapter I.

<sup>2</sup> For instance, the superior qualifications appointment provides for base pay to be set at an advanced step of the grade because of the superior qualifications of a candidate or a special need for the candidate's services. A quality increase, an award that recognizes sustained performance achievement, provides an increase of one step, and may be used once per year per employee.

<sup>3</sup> The Navy laboratories were attempting to improve the recruitment and retention of high quality employees and increase supervisory flexibilities with position classification, pay, and other personnel actions. Classification of positions was simplified and delegated to management. Pay increases within broad pay bands were coupled closely with performance ratings. Starting salaries, rather than strictly conforming to the GS grades and steps, were made flexible. The project was extended indefinitely in 1994 by P.L. 103-337. OPM conducted the project evaluation and determined that it was successful in improving personnel management at the two original demonstration laboratory sites.

#### **Improve the Thrift Savings Plan for New Employees**

The Thrift Savings Plan (TSP) is a retirement savings plan for employees covered under the Federal Employees' Retirement System (FERS) and the Civil Service Retirement System.<sup>4</sup> Eligible employees can sign up to contribute to the TSP only during the two open seasons held each year (May 15 – July 31 and November 15 – January 31). When a newly hired FERS employee enters service, the employee's contributions to the TSP must wait until the second open season after the date the employee reported for duty. The employing agency must start the Agency Automatic (1%) Contributions the first full pay period of the last calendar month of the open season in which the employee first becomes eligible. The practical impact of these rules can delay valuable retirement plan contributions for many months, depending on when a new employee reports for duty. Eliminating these delays would make the federal retirement system more attractive to candidates.<sup>5</sup>

#### **Provide Incentives for High-Cost Labor Markets**

As I mentioned in my testimony, during the last four years, we have continuously and unsuccessfully recruited for an information technology criminal investigator or analyst in the San Francisco Bay area. The high cost of living, particularly the cost of housing, has prevented even interested candidates from accepting our offers. Available incentives such as locality pay, recruitment bonuses for new employees, or relocation bonuses for employees on board, have proven insufficient. Recruitment, relocation, and retention bonuses are presently limited to a maximum of 25 percent of the annual rate of basic pay. The bonuses are also generally limited to a single payout to an employee during the tenure of employment (although a relocation and retention bonus may be paid to the same individual if justified under both bonus requirements). Increasing the maximum threshold of these bonuses and allowing multi-year bonuses will make the Federal government a more competitive employer, particularly in those regions where the high cost of living and associated high private sector salaries reduce the value of our existing federal incentives.

Congress and the Administration should also consider providing housing allowances (in either lump sum and/or multiyear payments), in addition to existing pay and bonus incentives, for those regions identified as high-cost housing areas. Existing permanent change of station allowances and entitlements for employees on board should also be

<sup>4</sup> FERS became effective in 1987, and almost all new federal civilian employees hired after 1983 are automatically covered. Under FERS, an employee can contribute up to 10% of basic pay each pay period, currently up to the annual Internal Revenue Service (IRS) limit of \$10,500. The employing agency matches employee contributions dollar for dollar on the first 3% of the employee contribution and 50 cents on the dollar for the next 2% an employee contributes. TSP, similar to the 401K plans of the private sector offers investment opportunities with stock, bond, and U.S. Treasury securities.

<sup>5</sup> HR 208 would allow new federal employees to roll over money from private-sector 401(k) accounts into TSP accounts and allow them to immediately begin participating in the TSP. This bill passed the House and was referred to the Senate on July 30, 1999.

reviewed and expanded, as necessary, to facilitate the relocation of employees to high-cost housing areas.

#### **Permit Limited Noncompetitive Hiring Authority**

Our experience indicates that the time it takes us to make job offers often puts us at a disadvantage with the private sector. The Federal staffing process, particularly for recruiting candidates with superior qualifications and for difficult-to-fill information technology positions, simply takes too long. Agencies and departments should be permitted (within appropriate guidelines and subject to external review) to waive competitive procedures for the most critical positions. Such hiring latitude would improve our chances to land topnotch candidates.

#### **Safeguard Incentive Budgets**

There is a clear role for congressional appropriators in assuring that adequate funding is available for incentives to recruit and retain a highly skilled and motivated federal workforce. Too often, training, award, travel, and relocation budgets are the first expenditures cut even though they are precisely the budgets needed to maintain a competitive edge in today's labor market. Such incentive and developmental expenses unfortunately become discretionary in the face of static or reduced budgets. Although Congress should not legislatively earmark incentive funds, congressional appropriators should provide adequate funding for departments and agencies to attract and retain skilled workers. As you stated, your subcommittee can and should play an educational role in highlighting the cost-effectiveness of recruitment and retention incentive funding.

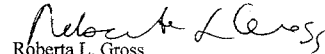
#### **Forge Partnerships with Educational Institutions and Students**

We believe a key to recruiting skilled and motivated information technology professionals will be to forge partnerships with college departments and schools of law, criminal justice, computer science, and other related academic disciplines. Presidential Decision Directive 63 calls for the establishment of a Scholarship for Service program to help encourage the next generation of information technology workers to seek federal employment. This program and other analogous scholarship programs targeting aspirants for high technology careers should be supported and funded by Congress. Due to downsizing, traditional student and graduate placement relationships between federal agencies and colleges and universities have waned. Career development programs (e.g., cooperative student education and management intern programs) have been easy budget targets in the last several years. Funded adequately, such developmental programs can result in a pipeline for a corps of talented and motivated employees dedicated to federal service. In addition to funding, Congress and the Administration can highlight these federal career development programs, particularly those dedicated to developing information technology security professionals, and help bring them increased prestige and status.

We also believe that we, as members of the federal law enforcement community, have increasing reason to expand our outreach to include students at the high school level. Increasingly, students are developing the skills and inclinations to pursue information technology careers at a young age. Some will unfortunately apply their skills in an improper, even criminal, manner. NASA OIG staff and other law enforcement professionals are well suited to highlight the many advantages and challenges of an information technology career in the government service. (Conversely, we are also very capable of warning young people about the pitfalls and consequences of delinquent use of information technology.) Although the impact of our effort may not be felt for years, the information and encouragement we offer today may provide the motivation for a career in the federal service. We have recently initiated plans to begin our own outreach and educational program and work closely with other agencies and departments to improve federal efforts.

I appreciate your subcommittee's interest in this important topic. Please contact me directly at (202) 358-1220 if you or your staff have any questions or need further assistance.

Sincerely,



Roberta L. Gross  
Inspector General



**Department of Energy**  
Washington, DC 20585

May 19, 2000

The Honorable George V. Voinovich  
Chairman  
Subcommittee on Government Management,  
Restructuring and the District of Columbia  
Committee on Governmental Affairs  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

The Department of Energy's Office of Inspector General learned of the May 2, 2000, hearing before the Senate Subcommittee on Government Management, Restructuring and the District of Columbia from the National Aeronautics and Space Administration's Office of Inspector General. We would like to offer additional thoughts and comments to the Congressional testimony that was given regarding personnel issues affecting the Federal service.

We bring to your attention a specific problem that our office faces when recruiting auditors. Auditors are in high demand in the private sector, and the current personnel hiring regulations inhibit our ability to hire leading candidates in that area. The current process for hiring auditors includes opening a vacancy announcement that is required to remain open for 10 working days, analyzing candidate qualifications, undergoing a rating process for the qualified candidates, interviewing candidates, and then making an offer. This process creates a time lag of at least 1 month before an offer can be made, which places our office at a severe disadvantage when competing against the private sector for these candidates. A potential solution would be to reinstate direct hire authority for auditor positions, which would greatly lessen the time lag since the 10-day vacancy announcement period would be eliminated. This change would at least diminish some of the disadvantages that we face when attempting to hire auditors at a lower salary than what can be obtained in the private sector.

We appreciate the opportunity to provide this information to you. Please contact me if I may be of any further assistance.

Sincerely,

Gregory Friedman  
Inspector General